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Department of the Treasury

PRESS RELEASES

Press release numbers HP-431 and HP-435 were not used.

PRESS ROOM



May 2, 2007
HP-375

**Treasury Assistant Secretary for Financial Markets Anthony Ryan May 2007
Quarterly Refunding Statement**

WASHINGTON, DC- We are offering \$32.0 billion of Treasury securities to refund approximately \$54.6 billion of privately held securities maturing on May 15 and to pay down approximately \$22.6 billion. The securities are:

- A new 3-year note in the amount of \$14.0 billion, maturing May 15, 2010;
- A new 10-year note in the amount of \$13.0 billion, maturing May 15, 2017;
- A reopening of the 30-year bond in the amount of \$5.0 billion, maturing February 15, 2037

These securities will be auctioned on a yield basis at 1:00 PM EDT on Monday, May 7, Tuesday May 8, and Thursday, May 10, respectively. All of these auctions will settle on Tuesday, May 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the June 10-year note reopening, and the July 10-year TIPS and 20-year TIPS reopening. Treasury also is likely to issue cash management bills in late May and early June.

Debt Issuance Considerations

Since our February 2007 statement, Treasury's ongoing monitoring of the fiscal and economic outlook has resulted in our decision to discontinue issuance of the 3-year note. Discontinuing the 3-year note will allow Treasury to ensure large liquid benchmark issuances, better balance its portfolio, and manage the improving fiscal outlook.

The final scheduled auction of the 3-year note will be held on May 7, 2007.

Treasury will continue to assess the fiscal and economic outlook and to review the size, frequency and issuance of securities.

Thirty-Year Bond Issuance

As noted in our August 2006 statement, Treasury will auction a new 29 ³/₄ - year bond with three months' accrued interest in August 2007, followed by a reopening of that bond in November 2007.

This new 29 ³/₄ - year bond will mature in May 2037.

Treasury Markets and Investor Participation

Treasury places great importance on maintaining a highly liquid and efficient government bond market. As part of ongoing efforts to enhance the efficiency of debt management operations, including reducing risks and lowering borrowing costs, we are examining ways to enhance our cash and debt management practices. In addition, as we stated in February, we are in the process of updating

our auction system.

With respect to overall market efficiency and participation, Treasury acknowledges and supports private sector efforts to enhance the operating integrity of the Treasury marketplace, including the creation of principles-based guidance for all stakeholders in the US Treasury markets.

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

The next quarterly refunding announcement will take place on Wednesday, August 1, 2007.

-30-

PRESS ROOM



May 2, 2007
HP-376

**Minutes Of The Meeting Of The
Treasury Borrowing Advisory Committee
Of The Securities Industry and Financial Markets Association
May 1, 2007**

The Committee convened in closed session at the Hay-Adams Hotel at 11:35 a.m. All Committee members except Richard A. Axilrod were present. Under Secretary Robert Steel, Assistant Secretary Anthony Ryan, Deputy Assistant Secretary Matthew Abbott and Office of Debt Management Director Karthik Ramanathan welcomed the Committee and gave them the charge.

The Committee addressed the first question in the Committee charge (attached) regarding debt issuance in light of intermediate and longer-term fiscal trends as well as recent economic and market conditions. Director Ramanathan presented a series of charts discussing the continued strong growth in individual, corporate, and non-withheld receipts as well as the slower growth of outlays in fiscal year 2007. In addition, the charts showed the Administration's projections of a rapidly improving fiscal outlook with a balanced budget by 2012. Director Ramanathan noted that increased issuance of State and Local Government Series (SLGS) securities has led to a decline of nearly \$50 billion in marketable borrowing needs.

In order to promote large, liquid sizes in its benchmark securities and in light of potential reduced borrowing needs in the near future, Director Ramanathan noted that one possible option would be to discontinue the 3-year note following the May 2007 auction. Director Ramanathan noted that current issuance sizes across bills and coupons may be approaching their lower limits. Discontinuing the 3-year note would promote liquidity in bills and other benchmark securities and eliminate the need for Treasury to resort to larger cuts across the curve which could impede market efficiency. Moreover, given the fiscal outlook and portfolio considerations, adjusting the auction calendar at this time was feasible. Director Ramanathan stated that Treasury had the capacity to raise more than \$200 billion through increased bill and coupon issuance if needed through its current menu of offerings.

Another chart noted that TIPS and longer term securities – based on current issuance patterns and sizes – would be primary tools in raising funds in the future. If positive fiscal trends continue in the future, additional reductions may be necessary through coupon reductions or calendar adjustments across the portfolio. The TBAC in the February 2007 meeting had suggested the 5-year TIPS as well as a consolidation of the 10-year note as other possible options. These options and others may need to be explored if current positive trends persist.

Director Ramanathan then noted that the TBAC may want to consider several factors when contemplating adjustments to the auction calendar including portfolio considerations, the intermediate to long-term trends, non-marketable borrowing, and potential legislative changes. From a portfolio perspective, the ability to offer the market large, liquid offerings on its benchmark securities and grow the bill sector was important. The economic outlook remains stable but Treasury's current auction calendar has the ability to raise a large amount of funds fairly rapidly. Non-marketable borrowing trends, particularly those related to SLGS, could moderate, but a low interest rate environment may precipitate additional refinancings and issuance over the next few years. Finally, legislative changes related to tax policy or entitlement reform could occur and impose additional funding requirements, but the Treasury generally remained capable of funding such needs.

The Committee turned to the decision facing the Treasury regarding the discontinuance of the 3-year note. One member noted that there is no futures contract and that any 3-year assets that investors want could be obtained through the Eurodollar market and swaps. Given both the decline in fiscal needs and concern about maintaining large liquid benchmarks, the Committee member noted that discontinuing the 3-year note at this point was sensible. Another member noted that market participants hoping to invest in the three-year space could purchase off the run 5-year notes as they roll down the curve.

One member raised caveats including uncertainty about the Alternative Minimum Tax provisions, war expenditures, and cash outflows starting in 2008 and 2009. This member noted that if the fiscal situation becomes more pessimistic, the discontinuance of the 3-year note may put significant pressures on other instruments. This same member noted, however, that outlays remain below trend, and this might continue into the 2008 elections as Congress potentially remains in gridlock.

Some members expressed the view that there was significant capacity to increase issuance in benchmark issues and bills. Several members noted that the market would welcome larger sizes in the core benchmark securities should the situation warrant such action. Other members noted that if at some future date, it was determined that more intermediate financing was needed, Treasury could reintroduce the 3-year note without significant disruption to the market. This member acknowledged that generally Treasury has considered the 3-year note to be a fairly flexible security, and that the market would not view reintroduction of the security negatively if such a move was properly telegraphed. Several members agreed with this perspective.

At this point, Committee members reached consensus that discontinuing the 3-year note at this time was advisable.

The Committee then considered the question of what might be done if the fiscal situation improves further. Committee members noted that Treasury may need to consider additional adjustments to the calendar if the fiscal outlook improved more rapidly than expected. Several members suggested that Treasury continue to evaluate other options in the event they need to be acted upon, including eliminating the 5-year TIPS, the consolidation of the 10-year note auction cycle, and any other prudent measures.

One member pointed out that 5-year TIPS cash flows were not that unique and that real money investors were more interested in the cash flows generated by longer-dated TIPS. Another member noted that Treasury has shown commitment to the TIPS program, and given that inflation-indexed securities are a core element of the overall portfolio, TIPS need to be reviewed just as any other security. Another member suggested that Treasury should be flexible in considering all options.

Most members felt that Treasury should keep its options open regarding the future fiscal situation and the potential need to cut financing. Members suggested that Treasury wait and evaluate technical and market factors as well as consider modifications of issue sizes and or elimination of reopenings in certain nominal or real issues.

The Committee then addressed the second question in the charge regarding debt management within a framework of improving fiscal trends. Specifically, the Committee was asked to address what practices Treasury and market participants should consider in a significantly improving fiscal or surplus environment, given volatility in budget forecasts and the Administration's long-term plan to balance the budget. In addition, the Committee was asked to discuss what lessons can be learned from the 1998-2002 experience.

A presenting member led the discussion with a high level overview of the current debt management framework-- where the framework is working-- and where Treasury might consider improvements. The member cited three key areas in the overall framework 1) debt management 2) cash management, and 3) risk

management. In the area of debt management, the member felt Treasury had adequate tools to manage the debt in all environments. The set of tools, which have been clearly elucidated to market participants, includes changing issue sizes, frequencies, and finally, the menu of offerings. Debt management has been proceeding very well on all fronts, according to the member, particularly with respect to transparency and issuance decisions. Transparency worked greatly to Treasury's advantage in reducing borrowing costs. The member noted that Treasury has used buybacks in the past and should be prepared to use this tool in the future should the fiscal outlook rapidly improve.

Regarding buybacks, the presenting member pointed out that Treasury had used one form of buybacks quite effectively in the past, and it may want to study another form of the buyback called "the switch" which is used by other countries. A switch involves issuing debt in one part of the yield curve to repurchase debt in another part of the curve. The member pointed out that previous buyback program had created significant cost savings for Treasury according to one study. The member also suggested the idea of continuous buybacks in small sizes to better balance the overall portfolio and maturity structure.

In the area of cash management, the member noted that the timing of receipts often presented problems for Treasury, and that the Treasury Tax and Loan program was suboptimal from both a capacity and return standpoint. The member suggested that Treasury consider using excess cash to buy short-term bills and coupons and also consider engaging in repurchase agreements. Both options may offer greater returns to the Treasury.

The presenting member then discussed Treasury's risk management, noting at the outset that other countries were further ahead in this area than the US. Specifically, the member suggested that Treasury consider using derivative transactions and swaps to change rollover risk. The member noted that such transactions would introduce credit risk into Treasury's portfolio, and that Treasury would need to decide if it wanted to accept such risk. The member noted that other countries such as Australia and Canada used these tools to continuing issuance despite having surpluses.

The presenting member then solicited comments and reaction from other Committee members. One member stated that the way the past buyback program operated, in which Treasury asked the market for offers on a basket of securities and selected only the best offers, was not good for real-money accounts because there was uncertainty about which issues would be repurchased.

Other members pointed out that the former buyback program, which focused generally on the long end of the market, was predicated on the idea that the US would be in surplus indefinitely and as such, long-term funding was no longer needed. Those members pointed out that fiscal outlooks change rapidly, and that such a motivation may have led to less than optimal repurchases.

A discussion arose whether Treasury should engage in continuous buybacks - continuous purchases of small lots in the market in the range of \$50 to \$100 million to retire debt - as opposed to the buybacks in the past, which were reverse auctions as large as \$3 billion. Several members thought continuous buybacks were not advisable because it may not fall into Treasury's regular and predictable behavior framework. Another member suggested that using excess cash to opportunistically retire maturing debt - particularly when large maturities were coming due - was prudent. With regard to using swaps, several members thought that using such a tool ran counter Treasury's objectives.

The Committee generally agreed that Treasury should continue to review its debt, cash, and risk management tools in light of the rapidly improving fiscal outlook in the event such instruments are necessary sooner rather than later.

Finally, the Committee was asked about trends related to international flows and capital investments, and if the Committee had any thoughts or suggestions with regard to these trends and the impact of the trends on Treasury's mission.

A Committee member presented a series of slides describing and characterizing international capital flows both into and out of the U.S. The member shared his thoughts on capital flows into various US capital markets including fixed income (Treasuries, agencies, corporate bonds), equities, direct investments (merger and acquisition related transactions), and private equity. The member noted the diverse set of inflows and the importance such inflows play in the U.S. economy.

The Committee member noted that foreign capital inflows provide a rising share of U.S. debt financing and allow stable U.S. investment, despite low savings, at lower interest rates. Estimates regarding how much lower rates are from these foreign capital inflows varied between 20 and 150 basis points, though such estimates are extremely difficult to verify. The member also stated that the U.S. net foreign investment position is still modest relative to GDP, but is forecasted to grow significantly in coming years.

The member noted that sources of foreign inflows are vulnerable to disruptions due to potential protectionist legislation, and that Congress should be wary of passing legislation related to international investment given their potential far reaching consequences.

Several members agreed that international investment was critical to ensuring strong, competitive capital markets in the United States. One member noted that opportunities abound globally, but that international investors still seek U.S. investments in one form or another given the depth of its markets.

Another member noted that the recent trend in establishing sovereign investment vehicles in Norway, China, Korea and other nations was a natural trend and that large flows of capital would still seek the most liquid, developed capital markets in the long run. One member suggested that Treasury offer products tailored to central banks given the amount of liquidity which they are seeking.

Director Ramanathan noted that Treasury seeks to have the broadest base of investors through its security offerings, and that tailoring specific products for specific audiences was currently not being contemplated.

Several members noted that the market needed to be aware that international investments came from many avenues and through many vehicles, and that forming a conclusion based on reviewing just one sector of the market, be it equities or Treasuries, was not wise.

The meeting adjourned at 12:55 p.m.

The Committee reconvened at the Hay-Adams Hotel at 6:10 p.m. All Committee members were present except for Richard A. Axilrod and Gary Cohn. The Chairman presented the Committee report to Assistant Secretary Ryan. A brief discussion followed the Chairman's presentation but did not raise significant questions regarding the report's content.

The meeting adjourned at 6:20 p.m.

Karthik Ramanathan
Director
Office of Debt Management
May 1, 2007

Certified by:

Tom Maheras, Chairman
Treasury Borrowing Advisory Committee
Of The Securitization Industry and Financial Markets Association
May 1, 2007



PRESS ROOM

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May 2, 2007
HP-377

**Report to The Secretary of The Treasury
From The Treasury Borrowing Advisory Committee
of The Securities Industry and
Financial Markets Association**

May 1, 2007

Dear Mr. Secretary:

Since the Committee's previous meeting in February, the economic expansion has continued on a relatively slow track, dominated by the drag from the housing market correction. Despite a strong gain in consumer spending, the initial estimate of first quarter GDP rose only 1.3%, capping a year of below-trend growth. Although homebuilding has fallen sharply, inventories are still high after disappointing sales this winter, and the loss of the marginal buyer may further delay a rebound. Nonetheless, strong corporate profits in most sectors are underpinning a healthy job market and along with reasonably supportive financial conditions, suggests the expansion will return to trend gradually in coming quarters.

The slowing in economic growth has had a moderating effect on core inflation but elevated energy and food prices along with higher costs for medical services have kept alive upside concerns. Declines in housing and motor vehicles softened prices for a wide range of consumer durables late last year as firms sought to unload unwanted inventory. As a result, the core CPI has drifted down from a peak near 3% to about 2½%, while the Federal Reserve's preferred gauge, the core consumption deflator, is rising at a 2¼% rate. Although modest further improvement is possible, policymakers remain focused on still relatively tight labor markets and the risk of heightened cost pressures as rising compensation overtakes slowing gains in productivity.

In light of the tension between slower growth and core inflation and still limited signs of spillover from housing to consumers, interest rates have edged down but remain in very narrow ranges. Yields across the U.S. Treasury yield curve have dipped by roughly 20 to 30 basis points since early February but market participants have pushed back into 2008 expectations for anything more than a token retracement of previous Federal Reserve rate hikes.

The Federal Government's fiscal balance continues to improve and probably will fall to below 1.5% of GDP in fiscal year 2007 as tax receipts are being buoyed by still solid job growth and rising investment income.

The Treasury opened the meeting by presenting the recently released "Quarterly Refunding Charts" dated April 30, 2007 and a new exhibit labeled "Presentation to the Treasury Borrowing Advisory Committee" dated May 1, 2007.

The refunding chartbook highlighted the continued improvement in the near-term outlook for the fiscal budget and a commensurate decline in net marketable borrowing needs. In fact, the net marketable borrowing needs have been further reduced by a recent increase in the issuance of state and local government securities (SLGS).

The Treasury is now estimating a net marketable pay down of \$145 billion of debt this quarter and net marketable borrowing needs of \$43 billion next quarter. These figures have improved by \$15 billion and \$6 billion, respectively, since January and are much improved relative to earlier forecasts.

The fiscal outlook has improved as individual and corporate tax receipts have continued to outpace estimates and while, at the same time, fiscal year outlays on a year-to-date basis are registering their smallest growth rate in recent years.

Against this backdrop of continuing improvement in the near-term fiscal outlook, the Treasury's first charge to the Committee was to solicit our advice with respect to the Treasury's debt issuance schedule.

After some discussion, the Committee concurred with Treasury that it had largely exhausted its flexibility with reduced bill issuance in response to a marked improvement in borrowing needs. Consistent with its earlier advice, the Committee recommended the elimination of the quarterly issuance of three-year securities.

Several members pointed out that the three-year note, which had only been re-introduced into the regularly scheduled coupon calendar in 2003, was the most appropriate security to be eliminated given the prospects for near and intermediate term borrowing needs. While three-year notes have served the Treasury very well over the past four years and have strong market acceptance, they are deemed less valuable than the 2-year, 5-year, 10-year and 30-year coupons which are the primary benchmark securities along the government yield curve.

The Committee also discussed the potential need to consider other measures over time if the fiscal outlook remains strong or improves even further. For example, several members again suggested that 5-year TIPS are a security that offer little investor value and have been held and traded primarily by investors and speculators responding to and anticipating near-term changes in commodity prices and CPI measures.

Not all members agreed, however, with the recommendation to consider this security for elimination if needed and thought that it might be more appropriate to consider other measures.

Finally, many members of the Committee commented on the unpredictability of the budget and noted how volatile the estimates have been in the past and that the Treasury should be cautious in making significant further adjustments in debt issuance in the near term. For example, several members pointed to the recent slowdown in GDP, the discussions surrounding adjustment to the alternative minimum tax (AMT) and other factors that should give the Treasury pause before making significant changes in its debt management schedule. Furthermore, the difficult fiscal environment predicted for the next decade and beyond by Social Security and other entitlement programs cannot be ignored.

In the second part of the charge, a Committee member presented his thoughts on U.S. Treasury debt management within a framework of improving fiscal trends. This member addressed the question of volatility in budgetary forecasts and whether Treasury had at its disposal sufficient tools for an improving fiscal or surplus environment.

The presenting member focused his commentary on the areas of debt management, cash management and risk management.

This member opined that in the area of debt management, or the construction of the portfolio, Treasury has excellent tools and has done a good job of making adjustments as needed. In the past, Treasury has first focused on the size of issues and then the frequency of issuance and ultimately the need to add or eliminate entire issues as appropriate. Treasury has effectively taken into account liquidity considerations, satisfying the important objective of achieving a regular and predictable issuance profile.

Re-openings were cited as another effective tool and, along with buybacks, provided Treasury with significant degrees of freedom in their issuance programs.

This member concluded strongly that Treasury has the tools to manage its debt portfolio in any reasonable fiscal environment.

In the area of cash management, this member posited that Treasury could do more to improve its effectiveness at managing the significant volatility of cash balances. By having an ability to invest high cash balances more dynamically or to operate in repo markets, Treasury would insure against the risk of reinvesting balances below market rates.

He concluded that Treasury could invest more in risk management resources and would be well served to study the example of other sovereign debt management programs in surplus environments, such as Australia and Canada.

Several members commented on the success of the buyback programs in prior periods and the importance of retaining and refining that tool given the pace of change in fiscal outlooks.

A strong majority of the Committee agreed with the proposition that Treasury has effective tools to administer debt management and that it should investigate the use of additional tools for cash and risk management purposes.

For the Treasury's third charge to the Committee, views were solicited as to the trends in international capital and investment flows and how these flows may affect the Treasury's mission.

One member of the Committee prepared a chartbook labeled "Trends in International Investment" and walked the group through the exhibits with commentary. The exhibits highlighted the increased cross-border activity in financial markets and investment by private and public investors.

Several of the exhibits highlight the growth in purchases of US securities by non-U.S. investors. For example, the annual net purchases of U.S. securities in 2006 by non-U.S. investors is estimated at a little more than \$1.1 trillion with the bulk of that, or approximately \$1 trillion, used to purchase U.S. debt securities. While the total investment in U.S. securities by foreigners has grown, the bulk of that growth has been in non-Treasury instruments such as agency and corporate notes and bonds and, while smaller in size, in equities.

The member also pointed out that while there has been tremendous growth of foreign investment in our securities markets, the U.S. remains a major investor abroad. For example, U.S. net purchases of foreign long-term securities (equity and debt) recently passed \$20 billion per month on a 12-month moving average basis and has increased markedly over the past several years.

The presenting member offered several conclusions from his presentation. Among them, that foreign capital inflows constitute a rising share of U.S. debt financing and provide lower interest rates than otherwise would occur. And, that the source of foreign inflows are increasingly concentrated in China and oil exporting countries, raising the risk of disruption in the event of protectionist legislation.

The Committee briefly discussed the members presentation and conclusions and were generally in agreement with those conclusions.

One member noted that the accumulation of wealth has occurred so rapidly in many countries that they have reacted by investing in very liquid securities such as fixed income and are now beginning to broaden their investment policies to include other asset classes. And, additionally, that for many countries, there are and will continue to be pressure for them to invest in infrastructure projects within their own countries.

In the final section of the charge, the Committee considered the composition of marketable financing for the April-June quarter to refund approximately \$54.6 billion of privately held notes maturing on May 15, 2007, as well as the composition of marketable financing for the remainder of the April-June quarter, including cash management bills, as well as the composition of marketable financing for the July-September quarter.

To refund \$54.6 billion of privately held notes and bonds maturing on May 15, 2007, the Committee recommended a \$14 billion 3-year note due May 15, 2010, a \$13 billion 10-year note due May 15, 2017 and a \$6 billion re-opening of the 30-year bond due February 15, 2037. For the remainder of the quarter, the Committee recommended an \$18 billion 2-year note in May and June, a \$13 billion 5-year note in May and June and an \$8 billion re-opening of the 10-year note in June. The Committee also recommended a \$25 billion 14-day cash management bill issued June 1, 2007 and maturing June 15, 2007, as well as a \$12 billion 8-day cash management bill issued June 7, 2007 and maturing June 15, 2007.

For the July-September quarter, the Committee recommended financing as found in the attached table. Relevant features include three 2-year note issuances monthly, three 5-year note issuances monthly, a 10-year note issuance in August with a re-opening in September, a 30-year bond issuance in August, as well as a 10-year TIPS issuance in July and a 20-year TIPS re-opening in July.

Respectfully submitted,

Thomas G. Maheras
Chairman

Keith T. Anderson
Vice Chairman

REPORTS

- Table Q2 07
- Table Q3 07

US TREASURY FINANCING SCHEDULE FOR 2nd QUARTER 2007
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT			MATURING AMOUNT	NEW MONEY
				4-WK	3-MO	6-MO		
4-WEEK AND 3&6 MONTH BILLS	3/29	4/2	4/5	20.00	17.00	14.00	57.00	-6.00
	4/5	4/9	4/12	8.00	15.00	13.00	57.00	-21.00
	4/12	4/16	4/19	8.00	14.00	12.00	57.00	-23.00
	4/19	4/23	4/26	8.00	13.00	12.00	55.00	-22.00
	4/26	4/30	5/3	8.00	13.00	12.00	52.00	-19.00
	5/3	5/7	5/10	8.00	13.00	12.00	42.00	-9.00
	5/10	5/14	5/17	8.00	13.00	12.00	42.00	-9.00
	5/17	5/21	5/24	15.00	13.00	12.00	43.00	-3.00
	5/24	5/29	5/31	15.00	14.00	13.00	45.00	-3.00
	5/31	6/4	6/7	10.00	14.00	13.00	45.00	-8.00
	6/7	6/11	6/14	9.00	14.00	13.00	45.00	-9.00
	6/14	6/18	6/21	9.00	14.00	13.00	50.00	-14.00
	6/21	6/25	6/28	9.00	14.00	13.00	49.00	-13.00
				<u>480.00</u>			<u>639.00</u>	<u>-159.00</u>
CASH MANAGEMENT BILLS								
17-DAY BILL		3/28	3/30				17.00	-17.00
	Matures 4/16							
13-DAY BILL		4/2	4/3		16.00		16.00	0.00
	Matures 4/16							
12-DAY BILL		4/4	4/5		16.00		16.00	0.00
	Matures 4/17							
5-DAY BILL		4/10	4/12		15.00		15.00	0.00
	Matures 4/17							
5-DAY BILL		4/12	4/13		8.00		8.00	0.00
	Matures 4/18							
14-DAY BILL		5/31	6/1		25.00		25.00	0.00
	Matures 6/15							
8-DAY BILL		6/6	6/7		12.00		12.00	0.00
	Matures 6/15							
								<u>-17.00</u>
COUPONS								
						CHANGE IN SIZE		
10-Year TIPS @	4/5	4/12	4/16	6.00	-2.00			6.00
5-Year TIPS	4/19	4/24	4/30	8.00	-2.00			
2-Year Note	4/23	4/25	4/30	18.00				
5-Year Note	4/23	4/26	4/30	13.00		21.60		17.40
3-Year Note	5/2	5/7	5/15	14.00	-2.00			
10-Year Note	5/2	5/8	5/15	13.00				
30-Year Bond @	5/2	5/10	5/15	6.00	-3.00	54.60		-21.60
2-Year Note	5/24	5/29	5/31	18.00				
5-year Note	5/24	5/30	5/31	13.00		21.40		9.60
10-Year Note®	6/11	6/14	6/15	8.00				8.00
2-Year Note	6/21	6/26	7/2 *	18.00				
5-year Note	6/21	6/27	7/2 *	13.00		19.70		11.30
				<u>150.00</u>		<u>121.60</u>		<u>26.40</u>

Estimates are italicized

NET CASH RAISED THIS QUARTER: -149.60

R = Reopening

* The June two and five-year note auctions settle on July 2. As a result, that borrowing is counted as part of the July-September quarter's net cash raised. The March two and five-year auctions settled in April and thereby are part of this quarter's cash flow.

US TREASURY FINANCING SCHEDULE FOR 3rd QUARTER 2007
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT			MATURING AMOUNT	NEW MONEY
				4-WK	3-MO	6-MO		
4-WEEK AND 3&6 MONTH BILLS	6/28	7/2	7/5	15.00	15.00	14.00	41.00	3.00
	7/5	7/9	7/12	15.00	16.00	14.00	38.00	7.00
	7/12	7/16	7/19	15.00	16.00	14.00	37.00	8.00
	7/19	7/23	7/26	22.00	16.00	14.00	36.00	16.00
	7/26	7/30	8/2	24.00	17.00	14.00	42.00	13.00
	8/2	8/6	8/9	24.00	17.00	14.00	43.00	12.00
	8/9	8/13	8/16	24.00	17.00	14.00	43.00	12.00
	8/16	8/20	8/23	24.00	17.00	14.00	51.00	4.00
	8/23	8/27	8/30	24.00	17.00	14.00	55.00	0.00
	8/30	9/4	9/6	16.00	17.00	14.00	55.00	-8.00
	9/6	9/10	9/13	10.00	17.00	14.00	55.00	-14.00
	9/13	9/17	9/20	10.00	17.00	14.00	54.00	-13.00
	9/20	9/24	9/27	10.00	17.00	14.00	53.00	-12.00
				<u>631.00</u>			<u>603.00</u>	<u>28.00</u>
CASH MANAGEMENT BILLS								
17-DAY BILL		8/30	8/31		30.00		30.00	0.00
	Matures 9/17							
11-DAY BILL		9/5	9/6		17.00		17.00	0.00
	Matures 9/17							
								<u>0.00</u>
COUPONS								
						CHANGE IN SIZE		
10-Year TIPS	7/9	7/12	7/16		9.00			9.00
20-Year TIPS ®	7/19	7/24	7/31		6.00			
2-Year Note	7/23	7/25	7/31		18.00			
5-Year Note	7/23	7/26	7/31		13.00		17.90	19.10
3-Year Note	8/1	8/6	8/15		0.00	-14.00		
10-Year Note	8/1	8/8	8/15		13.00			
30-Year Bond	8/1	8/9	8/15		9.00		62.60	-40.60
2-Year Note	8/23	8/28	8/31		18.00			
5-year Note	8/23	8/29	8/31		13.00		19.30	11.70
10-Year Note®	9/10	9/13	9/17		8.00			8.00
2-Year Note	9/24	9/26	10/1 *		18.00			
5-year Note	9/24	9/27	10/1 *		13.00		19.70	11.30
					<u>140.00</u>		<u>123.80</u>	<u>18.50</u>

Estimates are italicized

NET CASH RAISED THIS QUARTER: 46.50

R = Reopening

* The September two and five-year note auctions settle on October 1. As a result, that borrowing is counted as part of the October-December quarter's net cash raised. The June two and five-year auctions settled in July and thereby are part of this quarter's cash flow.



PRESS ROOM

May 2, 2007
HP-383

Secretary Paulson to Participate in Forum on Importance of an Open Economy and International Investment

Treasury Secretary Henry M. Paulson, Jr. will moderate a forum discussion next week on the importance of an open economy and international investment for U.S. job creation and economic growth hosted by the Organization for International Investment and George Washington University's Elliott School of International Affairs.

Who

Treasury Secretary Henry M. Paulson, Jr.
House Financial Services Committee Chairman Barney Frank
Thomas Friedman
Panasonic North America COO Joe Taylor
Mack Trucks President and CEO Paul Vikner
South Carolina Governor Mark Sanford

What

Panel Discussion on Leading the Global Economy: How an Open Economy and International Investment Create U.S. Jobs and Growth

When

Thursday, May 10, 2:30 p.m. EDT

Where

George Washington University
Jack Morton Auditorium
805 21st Street, NW
Washington, DC

Note Media must pre-set by 2 p.m. and RSVP to James Clarke at jclarke@ofii.org

-30-



PR LSS ROOM

May 3, 2007
HP-384

Visit by Singaporean Prime Minister Lee Hsien Loong

Washington, DC -- Secretary Henry M. Paulson, Jr. will welcome Singaporean Prime Minister Lee Hsien Loong at a meeting on Friday, May 4, 2007. Secretary Paulson and Prime Minister Lee plan to discuss a range of economic and financial issues, including efforts to promote trade and investment liberalization, combat illicit finance, and strengthen capital markets in the Asia-Pacific region. They will also discuss U.S. engagement in Southeast Asia and the broader Asia-Pacific region through bilateral channels and multilateral forums including APEC.



PRESS ROOM

May 3, 2007
HP-385

**Testimony of Treasury
Acting International Tax Counsel
John Harrington
Before the Senate Finance Committee on
Offshore Tax Evasion**

Washington, D.C.--Mr. Chairman, Ranking Member Grassley, and distinguished Members of the Committee, thank you for the opportunity to participate this morning and discuss the serious problem of offshore tax evasion.

Introduction

From the standpoint of tax administration, offshore tax evasion historically has been a very difficult area to address. Questionable use of low- or no-tax jurisdictions has been an issue for decades. Globalization, however, has made foreign investment and foreign activities common, with overseas markets becoming an increasingly important source of income for U.S. individuals and businesses.

Individuals invest in foreign entities for a variety of reasons. In most instances, these investments represent legitimate business transactions, using foreign entities in ways that are typical for international commerce. At times, however, foreign entities can be used for tax evasion. For example, some individuals invest through a jurisdiction with a reputation for secrecy and opaqueness, hoping to stymie the Internal Revenue Service (IRS) in its administration of the Internal Revenue Code. Others try to hide income from the IRS by setting up elaborate business structures and financial arrangements, some components of which are located offshore.

These varied scenarios make it clear that a one-size-fits-all approach will not work to stop offshore tax abuse while continuing to permit legitimate cross-border transactions, which are vital to the United States' participation in the global economy. This is why the Treasury Department has undertaken a multi-faceted approach to deal with the problem of offshore tax evasion. I would like to describe the actions we have taken and continue to take, especially regarding information exchange, to deal with this difficult but important issue. It is critical to bear in mind that this has been a long-term problem, and we must continue to take a long-term view in combating offshore tax evasion, while managing expectations about the speed with which progress can be made in addressing it.

The Treasury Department is very concerned about the use of offshore jurisdictions to evade U.S. tax. There plainly have been abuses in this area. We have been aggressively pursuing such abuses, and we intend to continue doing so.

We have sought to target our efforts on the sources of abuse and avoid actions that are so blunt that they hinder the legitimate cross-border trade and investment activities, which are so critical to U.S. business and U.S. jobs. Cross-border transactions are now standard business operations, as globalization has led to increased cross-border investment opportunities. We have to make sure that our tax rules reflect the current economic environment, without hurting the competitiveness of U.S. workers and businesses.

Regulatory and Administrative Actions

As part of our overall effort to improve compliance, the Treasury Department and

the IRS have taken a number of important steps on the administrative front and are continuing to work on other avenues to address offshore tax abuses. Although determined tax evaders may flaunt the tax rules, some taxpayers opportunistically seek to take advantage of ambiguous or outdated tax rules. Accordingly, we modify or update U.S. tax rules when we determine that they are being used to perpetrate such abuse. Recent published guidance projects that will improve compliance and that target potential areas of abuse include:

- **Foreign Tax Credit:** We have taken strong steps to halt misuse of the foreign tax credit. In November 2006, we issued final regulations regarding the proper allocation of partnership expenditures for foreign taxes. In March 2007, we issued proposed regulations that would disallow foreign tax credits tied to participation in certain artificially engineered, highly structured transactions. In August 2006, we issued proposed regulations that would address the inappropriate separation of creditable foreign taxes from foreign source income. We intend to make appropriate modifications and finalize both sets of proposed regulations as soon as possible.
- **Transfer Pricing:** We have produced, and continue to produce, significant guidance in the area of transfer pricing. In an increasingly globalized economy, cross-border transactions between controlled entities present significant compliance challenges, making guidance in the transfer pricing area an important part of our administrative efforts to address noncompliance. In August 2006, we issued temporary and final regulations addressing the treatment of cross-border services, and followed them up with additional guidance in December 2006. We issued proposed transfer-pricing regulations addressing cost-sharing in August 2005. We intend to finalize both sets of regulations, with appropriate modifications.
- **Other Abusive Transactions:** We have also shut down arrangements that utilized foreign jurisdictions to perpetuate abuse of the Internal Revenue Code. For example, in October 2006, we published proposed regulations regarding the Federal tax treatment of annuity contracts. These proposed regulations address a type of widely marketed transaction in which taxpayers claimed to be able to defer or avoid gain on the exchange of highly appreciated property for the issuance of annuity contracts. Recent Congressional hearings have highlighted how taxpayers were applying prior law treatment of these contracts to facilitate abusive private annuity arrangements, often involving offshore issuers. The proposed regulations, when adopted as final, will shut down those arrangements.

The IRS has also undertaken several compliance initiatives, including the Offshore Voluntary Compliance Initiative, aimed at taxpayers who used offshore payment cards or other offshore financial arrangements to hide their income, and the Offshore Credit Card Program, designed to identify taxpayers who use offshore bank accounts to hide income and offshore credit cards issued by secrecy jurisdiction banks to repatriate the unreported income. The IRS is continually monitoring this area for opportunities to implement new programs that will stop abusive transactions and improve compliance.

Obtaining Information from Other Jurisdictions

In most cases, however, the problem of offshore tax abuse lies not with our tax rules but with attempts to hide from them. Accordingly, to enforce our tax laws, we have to exchange information with other countries. Information exchange is an area in which the Treasury Department has been working assiduously for several years, and our steady and persistent efforts are bearing fruit.

In today's global economy, countries must be able to obtain and exchange the information needed to enforce their domestic tax laws. A key element of U.S. tax treaties, therefore, is the provision for exchange of information between the tax authorities. Under tax treaties, the competent authority (i.e., the tax authorities designated under the tax treaty) of one country may request from the other competent authority such information as may be relevant for the proper enforcement of the first country's tax laws. The information provided by the other country is subject to the strict domestic confidentiality protections that generally apply to taxpayer information. Because access to information from other countries

is critically important to the full and fair enforcement of the U.S. tax laws, information exchange is a priority for the United States in its tax treaty program.

A tax treaty is not feasible or appropriate in all cases, however. In some cases, there simply may not be the type of cross-border tax issues between the United States and the foreign country that are best resolved by treaty. For example, in the case of a country that does not impose significant income taxes, there may be little possibility of the double taxation of income that tax treaties are designed to address. In cases where a full tax treaty is not appropriate or feasible, the Treasury Department seeks to provide for the bilateral exchange of tax information by entering into a tax information exchange agreement ("TIEA") with the other country.

Information Exchange Generally

There are three primary forms of information exchange.

- Exchange of information on request: Exchange of information on request occurs when the competent authority of one country asks for particular information regarding specific taxpayers from the competent authority of another country.
- Automatic exchange of information: Information that is exchanged automatically is typically information comprised of many individual cases of the same type. Usually, this type of information exchange consists of details of income arising in the source country (e.g., interest, dividends, royalties, or pensions). This information is obtained on a routine basis (generally through reporting of the payments by the payer) by the sending country and is thus available for transmission to its treaty partners.
- Spontaneous exchange of information: Information is exchanged spontaneously when a country, having obtained information in the course of administering its own tax laws, which it believes will be of interest to one of its treaty partners for tax purposes, passes on the information without the latter having asked for it.

Tax Treaties

Tax treaties typically permit all three types of information exchange. Both the United States Model Income Tax Convention (U.S. Model Tax Convention) and the Organization for Economic Cooperation and Development Model Tax Convention on Income and on Capital (the OECD Model Tax Convention) provide for broad information exchange and do not limit the form or manner in which information exchange can take place. For example, Article 26 of the U.S. Model Tax Convention generally provides that "the competent authorities of the Contracting States [the treaty partners] 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 to the extent that 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, such taxes." The Article confirms that each Contracting State must maintain and protect the confidentiality of the tax information it receives from the other State, with disclosure permitted 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, such taxes, or the oversight of such functions.

The Article further provides that each 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 purpose." Thus, a treaty partner may not decline to supply information to the other treaty partner merely because the first treaty partner has no domestic interest in the information. For example, a country may not refuse to provide information on request about the holder of a bank account simply because the country does not tax interest and, therefore, does not collect such information.

Article 26 permits a Contracting State to refuse to share information in certain specified cases, however. A Contracting State may refuse (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; or (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. The Article specifically prohibits, however, a treaty partner from refusing to obtain or exchange information because of bank secrecy rules.

The information exchange article in the OECD Model Tax Convention has substantially similar provisions to those described above.

TIEAs

Compared to tax treaties, TIEAs are a more recent phenomenon. In 1983, as part of the Caribbean Basin Initiative, Congress granted the Treasury Department the authority to enter into bilateral or multilateral TIEAs with designated countries in the Caribbean and Central America. This authority was extended in 1986 to allow the Treasury Department to enter into bilateral TIEAs with other countries.

There are several items that are essential to the United States when negotiating a TIEA. First, the TIEA must provide for the exchange of information on request for both criminal and civil tax matters. Many jurisdictions are more willing to exchange information with respect to criminal tax matters, but such a restriction would greatly limit the utility of a TIEA from a U.S. standpoint. Second, the TIEA must provide for the exchange of information even if such information relates to a person who is not a resident or national of the United States or the TIEA partner. We may be more interested in the beneficial owner of an entity formed under the jurisdiction of the TIEA partner than we are in the entity itself. Finally, the TIEA must provide for the disclosure of information regardless of local "confidentiality" laws that may prohibit such disclosure, including laws relating to bank secrecy or bearer shares. Indeed, such laws may be one of the principal attractions for offshore tax evaders.

Many of our TIEA partners have small tax administrations, and the TIEAs acknowledge this reality. Accordingly, a TIEA often will specify the details that a request for information under the TIEA should contain and also require the IRS to explain why it is making the request. Although each TIEA partner is usually expected to bear the routine costs of fulfilling its obligations under the agreement, TIEAs often require the requesting party to bear "extraordinary costs." This type of feature is often necessary to induce a small jurisdiction to agree to a TIEA.

Information Exchange Is Not Just a Bilateral Issue

The United States is not the only country that has encountered the problem of offshore tax evasion, but it has been a leader in increasing worldwide standards of information exchange to combat such evasion. We have worked with other countries, particularly through the OECD, to raise international standards of information exchange. Although exchange of taxpayer information is effected on a bilateral basis, pursuant to a tax treaty or TIEA, the information exchange practices of third countries matter significantly. Some of the more complicated cases may involve transactions in several jurisdictions, requiring exchange of information with multiple jurisdictions. Thus, the adoption of high standards of international information exchange facilitates our ability to obtain the information we need through our agreements, thereby promoting the sound and effective administration of U.S. tax laws.

We have made great strides in raising international standards. It is now rare for a country to insist that it can only exchange information in which it has a domestic tax interest. In addition, the countries that assert that they cannot provide information because of bank secrecy are becoming fewer and fewer.

Improving the quality of the information available for exchange (e.g., removing bank

secrecy and eliminating the requirement of a domestic tax interest) is one of the most important developments in the last few years. In other words, access to relevant information is more important than the method of exchange (e.g., whether automatic or not). In particular, automatic exchange does no good if the underlying information is too limited to be of help.

We also have to make sure that tax information is properly protected. Under U.S. law, we cannot exchange taxpayer information unless we know the other country will protect the confidentiality of that information.

Exchange of non-taxpayer-specific information is also important. Countries often share experiences and schemes that they have encountered. For example, the Treasury Department recently issued proposed foreign tax credit regulations to shut down abusive foreign tax credit "generator" transactions. We learned about these transactions from foreign tax authorities. This kind of communications can be as important as the more traditional exchange of information.

The IRS has been actively involved in the development of several multilateral information exchange programs. The Joint International Tax Shelter Information Centre (JITSIC) was formed by tax authorities in the United States, the United Kingdom, Canada, and Australia. The objectives of JITSIC are to deter promotion of and investment in abusive tax schemes, particularly through information exchange and knowledge sharing. IRS Commissioner Everson has described JITSIC as having sharply improved IRS knowledge and understanding in a number of important international tax areas.

In addition to JITSIC, in January 2006 the IRS and the tax administrations of nine other countries agreed to the establishment of the so-called "Leeds Castle" Group. Under this arrangement, the commissioners of the revenue agencies of China, India, and South Korea agreed to meet regularly with their counterparts from the United States, the United Kingdom, Japan, Australia, Canada, France and Germany to consider and discuss issues of global and national tax administration in their respective countries. By providing additional opportunities to share information and experience, these organizations are a significant tool in combating offshore evasion.

Taking Stock of Information Exchange

Successes in information exchange do not come overnight. We have the access to information that we have today due to years of patient negotiations and cultivation of information exchange relationships. Moreover, new efforts today may not bear fruit until years from now. For that reason, we are committed to a multi-year approach to expanding our information exchange network. It is important to take a long-term perspective. At times, there have been criticism that we are devoting too much time and resources to expanding our information exchange network; other times we hear that we are not devoting enough. Because this is an area where steady pressure is essential and missteps (or overreaching) can undo years of work, we have to be careful not to disrupt the steady progress we have made.

It is also important to remember that information exchange is inherently voluntary. We cannot force any country to agree to exchange tax information. Sometimes negotiations on this issue are very difficult. The treaty or TIEA partner may be required to repeal or modify domestic law. In addition, signing a tax treaty or a TIEA is only the first step in the process. A healthy information exchange relationship requires us to maintain good relations with our treaty and TIEA partners. Even an ideally drafted agreement is of limited value if the tax authorities do not have a cooperative relationship. For example, if a treaty or TIEA partner believes that the information exchange relationship is not respected or appreciated by the United States, this may have a chilling effect on exchange of information on request or, particularly, on spontaneous exchange of information.

We have more to do in this area. Nonetheless, we have made great strides in recent years. Several new TIEAs have entered into force with jurisdictions that have figured prominently in previously documented accounts of offshore tax evasion.

Within the last two years alone, TIEAs have fully entered into force with the Cayman Islands, the British Virgin Islands, the Bahamas, the Netherlands Antilles, Jersey, Guernsey, and the Isle of Man. We also recently signed a TIEA with Brazil, and the newly signed tax treaty with Belgium provides greater information exchange than we have previously been able to achieve with that country.

Moreover, it must be kept in mind that TIEAs and the information exchange article in tax treaties are enforcement tools. Accordingly, there are limits in what we can say publicly about the manner in which we use them and the frequency with which we make requests, without undermining their deterrent effects. The goal is to enforce our laws, and we do not want to convey inadvertently to tax evaders any specific information about how and with whom we exchange information.

However, it is worth noting a few of the public successes that have resulted in part from our information exchange agreements.

- Recently, the U.S District Court in Washington sentenced an individual to nine years in prison for failing to report \$365 million in income. This individual, Walter Anderson, had attempted to evade his tax responsibilities by hiding earnings in offshore entities in the British Virgin Islands, Bermuda, the Channel Islands, and Panama. Information that the IRS and Department of Justice gathered through our TIEA with Bermuda helped in the prosecution of this case.
- In 2004, Almon Glenn Braswell was sentenced to 18 months in prison and ordered to pay over \$10 million in back taxes, interest and penalties. Mr. Braswell's use of a Bermuda corporation and bank account as part of his tax evasion scheme was uncovered through requests made under our TIEA with Bermuda.

Conclusion

As both Secretary Paulson and Assistant Secretary Solomon stated in recent testimony before this Committee, the Treasury Department is committed to improving tax compliance without unduly burdening honest taxpayers who currently meet their tax obligations. Tax compliance with respect to offshore transactions is an important aspect of that endeavor. By focusing on information exchange, we seek to reduce offshore tax evasion while achieving these goals.

Thank you again, Mr. Chairman, Ranking Member Grassley, and other Members of the Committee for the opportunity to appear before the Committee today. I would be pleased to answer any questions you may have.

PHLSS ROOM



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May 3, 2007
HP-386

2007 National Money Laundering Strategy Released

The U.S. Departments of Treasury, Justice, and Homeland Security today joined together in issuing the 2007 National Money Laundering Strategy, a report detailing continued efforts to dismantle money laundering and terrorist financing networks and bring these criminals to justice.

"The 2007 National Money Laundering Strategy is a direct result of close cooperation by the Departments of Justice, Treasury and Homeland Security, along with our foreign counterparts, and signifies our collective commitment to fight money laundering," said Assistant Attorney General Alice S. Fisher of the Justice Department's Criminal Division. "Implementation of this strategy will greatly assist in efforts to seize and forfeit millions in illegal proceeds that flow through the international financial system."

The 2007 Strategy addresses the priority threats and vulnerabilities identified by the Money Laundering Threat Assessment released in 2006, the product of an extremely valuable investigation into the current and emerging trends and techniques used by criminals to raise, move, and launder proceeds. The Assessment – the first government-wide analysis of its kind – brought together the expertise of regulatory, law enforcement, and investigative officials from across the government, culminating in a comprehensive analysis of specific money laundering methods, patterns of abuse, geographical concentrations, and the associated legal and regulatory regimes.

"The 2007 National Money Laundering Strategy builds upon the groundbreaking work of the Money Laundering Threat Assessment," said Pat O'Brien, Treasury's Assistant Secretary for Terrorist Financing. "Focusing on well-established money laundering methods and emerging trends identified in the Assessment, we have created a robust strategy for combating money laundering, deterring criminals, and addressing areas vulnerable to exploitation."

The 2007 Strategy builds on initiatives and programs pioneered in preceding National Money Laundering Strategies. The constant searching by criminals for new ways to launder and hide dirty money is evidence of our successful regulatory and law enforcement efforts to safeguard the banking system. With an aim at continuing these robust efforts, the 2007 Strategy places an emphasis on bolstering the efficiency of the anti-money laundering processes currently in place.

"In every type of case, from human smuggling and drug trafficking to intellectual property rights violations and illegal alien employment schemes, the need to hide and move ill-gotten gains is a constant. ICE's anti-money laundering initiatives are at the forefront of attacking existing and emerging money laundering threats" said Julie L. Myers, Assistant Secretary for Immigration and Customs Enforcement at the Department of Homeland Security. "ICE's trade transparency unit, bulk cash smuggling initiative and programs targeting illegal money service businesses and stored value card schemes are making it less profitable to commit these crimes."

Additionally, the 2007 Strategy focuses on leveling the playing field internationally, helping to ensure U.S. financial institutions are not disadvantaged through the implementation of controls and standards to combat money laundering and terrorist financing. Indeed, money laundering is a global threat the United States is working

to address through international bodies, including the Financial Action Task Force (FATF), and through direct private sector outreach in regions around the world.

REPORTS

- 2007 National Money Laundering Strategy

2007

NATIONAL MONEY

LAUNDERING

STRATEGY



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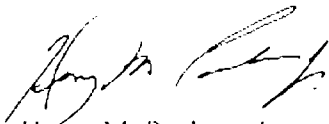


FOREWORD

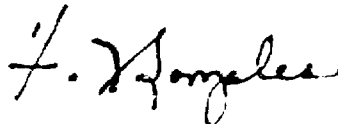
The National Money Laundering Strategy for 2007 breaks new ground in two important respects: it responds directly to the unprecedented U.S. interagency Money Laundering Threat Assessment completed in December 2005, and it focuses exclusively on deterring money laundering, independent of our efforts to combat the financing of terror. Money laundering, in its own right, is a serious threat to our national and economic security. Integrating illicit proceeds into the financial system enables organized crime, fuels corruption, and erodes confidence in the rule of law.

The specific money laundering threats and vulnerabilities addressed by the 2007 Strategy were identified by an interagency working group in a year-long evaluation that culminated in the U.S. Money Laundering Threat Assessment. The Threat Assessment represents a significant step forward for the U.S. Government's efforts to combat money laundering and is a testament to our progress. Never before have regulators, policymakers, and law enforcement professionals come together to identify money laundering trends and methods in the United States, and to assess our effectiveness against a spectrum of money laundering threats.

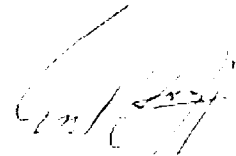
Further, the 2007 Strategy builds on a solid foundation of successful initiatives and programs introduced in previous National Money Laundering Strategies. Although we have made progress, money laundering is a dynamic threat requiring a dynamic response. As globalization opens borders to travel and trade, and global payments and clearing systems evolve, new money laundering opportunities are created and exploited. Accordingly, the 2007 National Money Laundering Strategy responds to established and emerging money laundering trends and techniques both at home and abroad.



Henry M. Paulson, Jr.
Secretary of the Treasury



Alberto R. Gonzales
Attorney General



Michael Chertoff
Secretary of Homeland Security



INTRODUCTION

The 2007 National Money Laundering Strategy is a direct response to the first U.S. Government-wide money laundering threat assessment released in December 2005. In addition to following this new methodology, the 2007 Strategy for the first time focuses exclusively on money laundering. Previous U.S. money laundering strategies presented a combined program against both money laundering and terrorist financing. While money launderers and terrorist financiers may use the same financial channels and employ similar techniques, there are differences in their operations and in our strategies against them.

The National Money Laundering Strategy for 2007 identifies areas in which the U.S. government will work to revise, enhance, or renew efforts to enforce existing Federal laws and regulations; study areas in which new guidance may be appropriate; and work with State supervisory and law enforcement authorities to improve financial transparency in State-regulated financial sectors. There are also areas identified in which the U.S. can more effectively exploit information-sharing opportunities between law enforcement and the financial services community.

Although conceived to be the foundation for the 2007 Strategy, the U.S. Money Laundering Threat Assessment is much more than that. It not only assesses the progress the United States has made in combating money laundering and highlights areas that require further attention, but also provides lawmakers, regulators, examiners, law enforcement, and industry with a cautionary explanation of how major money laundering methods operate. For this reason, the Threat Assessment is included in its entirety as Appendix A.

Key findings of the U.S. Money Laundering Threat Assessment include:

- Banks and other depository institutions remain the primary gateway to the U.S. financial system. Once illegal proceeds get into a depository institution, they can be moved instantly by wire or disguised through commingling with legitimate funds. With the advent of Internet and remote banking, depository institutions face increased challenges identifying customers and their customers' sources of funds.
- Money Services Businesses (MSBs) offer an alternative to banks for both financial services and money laundering. This industry includes check cashers, money transmitters, foreign exchange dealers, and sellers of money orders, stored value products, and travelers' checks. Small retailers may offer informal money services as a sideline. Relatively few MSBs are registered.
- Smuggling cash out of the United States for deposit elsewhere is a well-established money laundering method and appears to be on the rise due to the barriers criminals face attempting to launder cash domestically. Bulk cash smuggling is most often associated with illegal narcotics. The illicit proceeds flow out of the U.S., often across the Southwest border, retracing the route that drugs frequently take entering the United States. Drugs and illicit proceeds cross the U.S. northern border as well.
- Often the most complex money laundering methods involve the use of international trade to disguise funds transfers. Trade-based money laundering takes many forms including the Black Market Peso Exchange, which separates the crime from the cash early in the money laundering process. Under this scheme, drug dealers are able to hand off their illicit dollars in the U.S. to professional money launderers who make clean funds available outside the United States.
- Legal entities, including corporations, limited liability companies and trusts, serve many legitimate purposes but also can be used for money laundering. Criminals who are able to hide their control of a company or trust can disguise their money laundering activity as commercial transactions. Minimal registration requirements and lax oversight can make it difficult to determine who owns and operates legal entities.
- Casinos are cash-intensive businesses that often provide financial services and money laundering opportunities. The exchange of cash for casino chips and related money transfer and account services make casinos vulnerable to money laundering. The number of gaming establishments in the U.S. is growing, driven by Native American tribes. Casinos on Indian reservations today bring in more money than Las Vegas and Atlantic City combined.

- The insurance industry has undergone a transformation, and may become increasingly attractive to money launderers. While traditional insurance policies remain an important part of the life insurance business, agents and brokers now offer a range of investment services featuring financial products that can be purchased and subsequently transferred, redeemed or sold, creating new opportunities for money laundering.

The United States has a robust and aggressive anti-money laundering (AML) program. While quantifying the effectiveness of U.S. efforts against money laundering is difficult given the nature of the crime, there are ample indications U.S. regulations and law enforcement are having an impact. As it becomes more difficult to move illicit funds using a particular money laundering method, there is a clear migration to other channels. The Financial Action Task Force recognized the effectiveness of the U.S. AML enforcement regime in its Report on the Third Mutual Evaluation of the United States adopted in June 2006. The Report's summary states:

The U.S. Authorities are committed to identifying, disrupting, and dismantling money laundering and terrorist financing networks. They seek to combat money laundering and terrorist financing on all fronts, including by aggressively pursuing financial investigations. These efforts have produced impressive results in terms of prosecutions, convictions, seizures, asset freezing, confiscation and regulatory enforcement actions¹.

Statistics demonstrating the Federal law enforcement and regulatory efforts against money laundering are presented in Appendix B.

The Threat Assessment and 2007 National Money Laundering Strategy are products of broad-based inter-agency cooperation. More than a dozen Federal agencies, bureaus, and offices participated in these projects, each with a unique mission and a unique view of the money laundering landscape. Each category of financial crime has distinct criminal and financial traits. Accordingly, each Federal law enforcement agency has a

lead role in a particular category of crime and often has expertise interdicting specific money laundering threats. Participation in crafting the 2007 Strategy came from across the Departments of the Treasury, Justice, State, and Homeland Security, as well as from the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

Collaboration is an essential component of the U.S. strategy against money laundering. U.S. law enforcement agencies are most effective when they work together through information sharing, pooled databases, regional task forces and Suspicious Activity Report Review Teams. Examples of law enforcement collaboration are included in Appendix C, which includes a listing of databases and intelligence centers that hold bulk cash seizure and other information.

An important tool in the U.S. fight against money laundering is asset forfeiture, which strips away the profit from illegal activity. In addition to disgorging criminal proceeds and deterring crime, asset forfeiture has been used to facilitate the return of funds to victims of fraud and has resulted in millions of dollars being transferred to State, local and international law enforcement efforts through equitable sharing. A description of the strategic use of asset forfeiture is presented in Appendix D.

Due to the global nature of financial and communications networks, the United States cannot have a sustained impact against money laundering unless other countries impose similar or complementary domestic regulations and cooperate with international sanctions. The U.S. government continues to work bilaterally and multilaterally to improve global safeguards. All agencies participating in AML initiatives domestically also work closely with their international counterparts through bilateral and multilateral channels to assist in capacity-building efforts and coordination. International support for effective AML programs is vital to the national security of the United States and is one of the goals outlined in the 2007 National Money Laundering Strategy.

¹ Financial Action Task Force, Summary of the Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism, United States of America, 23 June 2006, available at www.fatf-gafi.org/dataoecd/44/9/37101772.pdf

CONTINUE TO SAFEGUARD THE BANKING SYSTEM

Banks and other depository institutions are the principal gateway to the U.S. financial system and are constantly threatened by criminals attempting to launder illicit funds. Once illegal proceeds are placed into a depository institution, the funds can be moved easily by wire transfer or disguised by intermingling them with legitimate funds. The challenges depository institutions face include criminals attempting to hide their identities and sources of income in order to open accounts and launder illicit proceeds. In addition, use of the Internet as a means for customers to open or access accounts and the steady influx of immigrants without U.S. government-issued identification are compelling banks to explore new ways to verify the identity of their customers. Internationally, the use of “correspondent,” “payable through,” and “nested” accounts also create opportunities for concealing a customer’s true identity in the absence of adequate customer due diligence. Even when currency is smuggled out of the United States, the funds can get into the banking system abroad and come back to the U.S. via cross-border wire transfers.²

To safeguard the banking system, the Financial Crimes Enforcement Network (FinCEN), the Federal banking regulators, and the Federal law enforcement community will continue to work closely with the banking industry to fight money laundering. FinCEN and the Federal banking regulators will develop and publish guidance alerting the banking industry to money laundering threats and the development and application of AML controls. FinCEN also will work to enhance information sharing between the law enforcement community and the banking industry, and will conduct focused outreach in coordination with law enforcement to demonstrate the value of Bank Secrecy Act data to the various sectors of the financial community. The Federal law enforcement community will make industry outreach a priority and will pursue financial crimes aggressively.

- FinCEN will continue to conduct outreach efforts on the new regulatory requirements implementing Section 312 of the USA PATRIOT Act. Section 312 requires certain financial institutions to conduct due diligence when establishing or maintaining correspondent accounts for foreign financial institutions or private banking accounts for non-U.S. persons and to conduct enhanced due diligence when establishing or maintaining correspondent accounts for certain types of foreign banks or private banking accounts for senior foreign political figures, their families and close associates.
- FinCEN and the Federal banking regulators will work with the Federal law enforcement agencies to shut off access to U.S. depository institutions for the Black Market Peso Exchange (BMPE) by increasing the use of advisories to alert depository institutions of relevant threats. The BMPE is considered a trade-based money laundering technique, but it often relies on access to accounts at U.S. depository institutions.⁴
- FinCEN will work to sign information-sharing agreements with States that have not yet signed a memorandum of understanding (MOU). FinCEN developed a model information-sharing agreement that it is seeking to execute with all States that regulate banks, money services businesses (MSBs), and other types of financial institutions for compliance with the Bank Secrecy Act (BSA) or similar AML requirements.
- FinCEN will place a stronger emphasis on producing more advanced analytic products and increase its ongoing efforts to analyze BSA filings to provide geographic threat assessments. These assessments help law enforcement better determine where vulnerabilities may exist in the financial systems operating within their respective geographic areas and assist the Federal and State banking regulators in targeting examinations and enforcement.

² For more information on money laundering threats to the U.S. banking system and countermeasures see Appendix A.

³ Many of these Action Items are applicable to the broader category of “financial institutions,” which includes banks and other depository institutions, as well as other financial services businesses.

⁴ For more on the BMPE and trade-based money laundering see Goal 4 and Appendix A.

- FinCEN and Federal law enforcement agencies will continue information-sharing and partnering with the financial community through forums, such as the Bank Secrecy Act Advisory Group (BSAAG)⁵ and its related subcommittees. FinCEN will propose to the BSAAG the creation of a new subcommittee to serve as a forum in which all stakeholders can provide input and maintain a dialogue on stored value issues as FinCEN implements its regulatory plan.
- The Treasury will work with the Federal law enforcement agencies to identify areas where Geographic Targeting Orders (GTOs) could be used to identify and attack geographically specific money laundering activity. The Treasury Department has the authority, using a GTO, to require financial institutions in a geographic area to file additional transaction reports or maintain additional records beyond those ordinarily required under the regulations implementing the BSA and other relevant requirements. GTOs have the potential to generate important information for law enforcement, facilitating better targeting of resources to combat illegal activity.
- FinCEN will facilitate improved information-sharing among and between the financial services community and law enforcement. Section 314 of the USA PATRIOT Act enables government entities to provide actionable intelligence to financial institutions, and mandates reporting by financial institutions, as well as facilitating information sharing among financial institutions themselves. FinCEN will provide more frequent alerts and advisories regarding terrorist financing and money laundering through the Section 314 information-sharing system to better educate the industry regarding risks to the U.S. financial system and enable the industry to interdict appropriately.
- FinCEN, in conjunction with other components of the Treasury, will study the application, supervision, and enforcement of AML policies and procedures on private-sector global payment networks, leveraging similar work being undertaken by a number of governmental and international organizations on a multilateral basis. The global reach of these payment networks often puts them outside the jurisdiction of any one domestic authority.
- FinCEN will work to promote consistent reporting of how BSA data is used and the value of BSA data to the relevant agencies.
- The Office of Foreign Assets Control (OFAC) will continue to foster transparency within the automated clearing house⁶ community to assure that adequate information is included with cross-border funds transfers and that transactions subject to financial sanctions are appropriately interdicted.
- Federal law enforcement agencies that investigate financial crimes will expand formal outreach programs with the banking industry and identify industry liaisons.
- Federal law enforcement agencies will maintain robust Suspicious Activity Report (SAR) review programs and BSA data analysis in order to initiate and support investigations of attempts to exploit the banking system for money laundering. There are 80 SAR Review Teams operating across the United States analyzing BSA data to identify evidence of financial crimes.

⁵ The BSAAG is an advisory group consisting of representatives of government, financial institutions, and other interested persons. The BSAAG meets semiannually for the purpose of informing private sector representatives of the utility of Bank Secrecy Act reports and to advise the Secretary of the Treasury (or his designee) of potential enhancements or modifications to existing Bank Secrecy Act requirements.

⁶ The Automated Clearing House (ACH) system is a domestic electronic batch transfer interbank payment network. The ACH is used by participating depository financial institutions to clear electronic funds transfers, such as automatic payroll deposits and certain debit card transactions. The Federal Reserve and the Electronic Payments Network act as central clearing facilities through which financial institutions transmit or receive ACH entries. The ACH is governed by the private sector National Automated Clearing House Association.

ENHANCE FINANCIAL TRANSPARENCY IN MONEY SERVICES BUSINESSES

Criminals unable to move illicit cash directly into the U.S. banking system may turn to money services businesses (MSBs) as an alternative. MSBs encompass a large and varied group of non-depository financial service providers offering both formal and informal value transfer services. MSBs include money transmitters, check cashers, currency exchangers, as well as issuers, sellers, and redeemers of money orders, traveler's checks, and stored value. The diversity and accessibility of the MSB sector presents challenges for regulation and oversight. While the exact number of service providers in the United States is difficult to determine, estimates suggest that fewer than 20 percent of MSBs are registered with FinCEN. It is not known what percentage of unregistered MSBs are exempt from registration, due for example to their low business volumes or agent status. Regardless, the result is that the vast majority of MSBs operate without direct Federal regulatory supervision.⁷

The relevant regulatory, supervisory, and law enforcement agencies will work collaboratively to improve and expand MSB outreach initiatives and will work aggressively to identify and prosecute MSBs that facilitate money laundering. FinCEN will clarify MSB regulatory obligations, simplify the registration process, and strengthen the BSA compliance supervisory structure.

- Federal law enforcement agencies will increase enforcement efforts along the Southwest border, which they have identified as a primary destination and transshipment point for suspicious funds sent

through MSBs. A key finding of the 2005 National Drug Threat Assessment⁸ was that drug traffickers use MSBs – particularly money transmitters, currency exchanges (*casas de cambio*), and check cashing businesses – to launder drug proceeds.

- OFAC will enter into MOUs with the States, working with the Conference of State Bank Supervisors and the Money Transmitter Regulators Association, to share information and improve awareness of trade and economic sanctions that are often connected with money laundering schemes.
- FinCEN, in coordination with the Federal banking regulators and the industry, will issue guidance and develop regulatory definitions and requirements under the BSA for stored value products and payment systems.
- FinCEN will coordinate with the Federal law enforcement agencies and the Immigration and Customs Enforcement (ICE)-led Identity and Benefit Fraud Task Force to identify unregistered MSBs, conduct outreach and, where appropriate, to harmonize law enforcement responses. ICE's new MSB/IVTS⁹ initiative has since January 2006 identified more than 400 unlicensed MSBs, resulting in the initiation of 300 criminal investigations.
- FinCEN, in coordination with the Internal Revenue Service (IRS), will enhance public sector outreach to educate MSBs about their regulatory obligations as well as making the sector aware of money laundering indicators.
- FinCEN will explore ways to obtain more information on MSBs. This will help focus supervision and enforcement resources on MSBs that present the greatest vulnerability to money laundering and other criminal activity. FinCEN also will seek to clarify the extent to which branches or agents of foreign MSBs located in the United States are subject to the BSA.

⁷ For more information on money laundering threats involving MSBs and U.S. countermeasures see Appendix A.

⁸ National Drug Threat Assessment, produced by the National Drug Intelligence Center, available at <http://www.usdoj.gov/ndic/pubs11/12620/index.htm>.

⁹ Informal Value Transfer Systems (IVTS) refers to funds transfers that take place outside of the conventional banking system through non-bank financial institutions or other business entities whose primary business activity may not be the transmission of money

- The IRS will work to sign information-sharing agreements with States that have not already signed an MOU. The IRS has a model Federal/State MOU that provides both IRS and the participating State the opportunity to leverage resources for BSA examinations, training, and outreach. FinCEN and the IRS (which has been delegated examination authority for MSBs¹⁰) are reviewing examiner training materials, as well as materials used for education and outreach, and are working with State regulators to launch a task force dedicated to educating and assisting MSB regulators on the conduct of BSA examinations.
- IRS-Criminal Investigation (IRS-CI) and IRS Small Business/Self Employed BSA (IRS SB/SE BSA) will continue to implement the Fraud Referral Program through which civil operating divisions of the IRS advise IRS-CI of potential criminal violations encountered during the performance of their duties. The Fraud Referral Program has been a traditional tool for criminal tax enforcement, but in FY 2005 IRS-CI, working with IRS SB/SE, expanded the program to include MSB BSA compliance.

¹⁰ IRS Small Business/Self Employed BSA has been delegated authority to examine MSBs for BSA compliance.

STEM THE FLOW OF ILLICIT BULK CASH OUT OF THE UNITED STATES

Criminals facing barriers to money laundering at banks and MSBs in the United States may attempt to smuggle cash to foreign financial institutions. Often some of those funds are wired or transported back to the United States for deposit in U.S. accounts. The smuggling of bulk currency out of the United States is the largest and most significant drug-money laundering threat facing law enforcement. Detering direct access to U.S. financial institutions by criminals does not prevent money laundering if illicit proceeds can still reach U.S. accounts through indirect means.¹¹

Stopping criminal proceeds from leaving the United States as illicit bulk cash and reentering the country as seemingly legitimate funds requires a borderless strategy that includes initiatives against bulk cash smuggling at home and capacity building and cooperation abroad.¹²

- Treasury's Executive Office for Asset Forfeiture will provide support for both IRS-CI and ICE to establish more Federal law enforcement-led task forces and investigations targeting the smuggling of bulk cash out of the United States. The Department of Justice will provide support for Drug Enforcement Administration (DEA) participation in task forces and investigations targeting bulk cash smuggling.

- The Departments of the Treasury and Justice will continue to sponsor advanced bulk currency smuggling and post-interdiction financial investigations training for DEA, IRS-CI, ICE and Customs and Border Protection (CBP), and the United States Attorneys Offices.
- OFAC and the Federal Reserve will continue their efforts to prevent the wholesale distribution of U.S. currency, by commercial banks that receive Federal Reserve Cash Services, to rogue regimes or entities that appear on OFAC's List of Specially Designated Nationals and Blocked Persons.
- CBP, DEA, and ICE will expand bulk cash concealment detection training for State and local law enforcement. This will include training in concealment "trap" detection¹³, methods of courier debriefing, and guidance on pertinent evidence identification.
- The Organized Crime Drug Enforcement Task Force (OCDETF), through its regional strategic initiatives, will target illegal bulk cash movement along the Southwest border and on interstate highways coming from the Western and Eastern States. These bulk cash initiatives will be supported by OCDETF's Co-Located Strike Forces in Houston and Atlanta and the Gulf Coast High Intensity Drug Trafficking Area (HIDTA)¹⁴ Blue Lightning Operations Center, which function as regional points of contact for law enforcement officers and prosecutors nationwide. These regional support centers gather intelligence and disseminate leads quickly throughout neighboring areas.
- The DHS-led Border Enforcement Security Task Force (BEST) will be expanded beyond the Southwest border, where bulk cash smuggling is

¹¹ For more information on bulk cash smuggling and U.S. countermeasures see Appendix A.

¹² For information on international initiatives see Goal 8.

¹³ Smugglers use many low- and high-tech methods to conceal cash and other contraband in hidden compartments or "traps" in vehicles and merchandise.

¹⁴ The HIDTA program enhances and coordinates drug control efforts among local, State, and Federal law enforcement agencies. The program provides agencies with equipment, technology, and additional resources to combat drug trafficking and its harmful consequences in critical regions of the United States.

targeted as an identified vulnerability at specific points of entry, to include Northern border locations as well.

- CBP, in coordination with ICE, will increase the capability for outbound inspections and will continue to invest in research and development of non-intrusive bulk currency detection technology.
- CBP, in coordination with ICE, will develop mitigation guidelines for bulk cash smuggling violations. Currently, when cash is seized in violation of the bulk cash smuggling statute, 31 U.S.C. 5332, CBP has utilized mitigation guidelines applicable to a person failing to file a Report of International Transportation of Currency or Monetary Instruments (required for amounts exceeding \$10,000 entering or leaving the country). Distinct mitigation guidelines must be formulated for the smuggling of bulk currency.
- FinCEN and the Federal banking regulators will work with the Federal law enforcement agencies to help U.S. depository institutions identify illicit deposits. In April 2006, FinCEN and the Federal banking regulators issued an advisory warning that U.S. financial institutions may be misused for the repatriation of illicit U.S. currency smuggled into Mexico.
- The National Drug Intelligence Center (NDIC) will partner with the El Paso Intelligence Center¹⁵ to produce a comprehensive Southwest border bulk cash threat assessment. This joint analysis will produce recommendations to maximize the effectiveness of law enforcement resources to combat bulk cash smuggling in the Southwest border region.
- NDIC will conduct a comprehensive analysis of bulk cash smuggling along the Northern border. The project will seek to identify the areas in this region where bulk cash smuggling is taking place, the methods used, and the groups responsible.

¹⁵ See Appendix C.

ATTACK TRADE-BASED MONEY LAUNDERING AT HOME AND ABROAD

The most complex money laundering methods are often those that use trade to transfer value into or out of the United States. Trade-based money laundering encompasses a variety of schemes. The most common in the Western Hemisphere is the Black Market Peso Exchange (BMPE) in which Colombian drug traffickers swap illicit dollars in the United States for clean pesos in Colombia. Other methods include manipulating trade documents, and using criminal proceeds to buy gems or precious metals. Trade-based schemes are also used by informal value transfer systems to settle accounts.¹⁶

Law enforcement will use all available means to identify and dismantle trade-based money laundering schemes. This strategy includes infiltrating criminal organizations to expose complex schemes from the inside, and deploying ICE-led Trade Transparency Units that facilitate the exchange and analysis of trade data among trading partners.

- ICE will work with countries that have expressed interest in establishing Trade Transparency Units (TTUs) with the United States. ICE, with the support of the Department of State, has established TTUs in Argentina, Paraguay, Brazil, and Colombia, and is working with the governments of Mexico, the Philippines, and Malaysia to establish TTUs. The mission of a TTU is to analyze cross-border trade data in order to identify anomalies that might indicate trade-based money laundering, such as the BMPE. With Treasury Department support

for domestic TTU operations, ICE conducts investigations and prosecutions related to trade-based money laundering and other financial crimes in the United States and abroad.

- Treasury and ICE will investigate how Foreign Trade Zones (FTZ), known as free trade zones outside of the United States, are abused for trade-based money laundering and will work with host nations to close this vulnerability. Operating in an FTZ allows manufacturers legal options to defer, reduce, or even eliminate U.S. customs duties. These zones are intended to promote manufacturing, but also facilitate money laundering when false documentation is used to misrepresent imports and exports.
- The United States will attack both the onshore and offshore components of the BMPE. Federal law enforcement agencies and the Department of State will work cooperatively and collaboratively with foreign law enforcement authorities to shut down the international BMPE network. In addition, U.S. Federal law enforcement agencies and offices of the Treasury will continue to work with the U.S. financial services and trade communities to raise awareness of trade-based money laundering strategies, including the BMPE.
- NDIC will dedicate analytic resources to producing a database that will collect BMPE-related data and will publish an intelligence product addressing a reverse BMPE scheme, known as *reintegro*, which is believed to account for a significant percentage of illicit proceeds laundered through the BMPE annually. When goods are exported from Colombia, the shipper must obtain documentation that allows the goods to be exported and payment to be received into the shipper's bank account. This is known as a *reintegro*, which means "reintegrate papers." After the initial use of the export documents by the shipper, these papers are often sold for others to use, which can create opportunities for money laundering.¹⁷

¹⁶ For more information on trade-based money laundering and U.S. countermeasures see Appendix A.

¹⁷ For more information on *reintegro*, see: "Law Enforcement Efforts to Combat International Money Laundering Through Black Market Peso Brokering," House of Representatives Subcommittee on General Oversight and Investigations, Committee on Banking and Financial Services, U.S. House of Representatives, October 22, 1997, at: http://commdocs.house.gov/committees/bank/hba44337.000/hba44337_0f.htm.

PROMOTE TRANSPARENCY IN THE OWNERSHIP OF LEGAL ENTITIES

The organization and registration of certain business entities, such as corporations, limited liability companies, and trusts can be accomplished in all State jurisdictions with minimal public disclosure of personal information regarding controlling interests and ownership. The current lack of transparency prevents financial institutions from identifying suspicious transactions and hinders law enforcement investigations and prosecutions. Using a State-registered business entity as a front is one way that money launderers gain access to U.S. banks and other domestic financial institutions.¹⁸

FinCEN will enhance awareness of the misuse of legal entities for money laundering, and, with OFAC and other offices of the Treasury, will work with State administrators to explore options to increase transparency in the beneficial ownership of legal entities. FinCEN, OFAC, the IRS, and the Federal functional regulators will issue guidance on the risks of providing financial services to shell companies. Law enforcement agencies will target for prosecution individuals who use the incorporation process to facilitate money laundering.

- FinCEN, OFAC, the IRS, and the Federal functional regulators will develop guidance for financial institutions alerting them to the risks inherent in providing financial services to shell companies and other legal entities, and will suggest ways to mitigate those risks consistent with applicable AML and customer identification program regulations.

- FinCEN will publish an analytical study of the use of domestic legal entities, focusing on limited liability companies, in financial crime and money laundering.
- Offices of the Treasury, including FinCEN and OFAC, will develop and implement outreach programs with State authorities and relevant trade associations to explore legislative and administrative options to require the disclosure of ownership information in the company registration process. Outreach efforts will focus on those States with the most significant organization activity and those that are most often cited in Suspicious Activity Reports involving shell companies and other legal entities.
- The Treasury, in conjunction with FinCEN and the Federal functional regulators, will provide necessary guidance to clarify points of question about the customer identification program rule.
- The Federal Bureau of Investigation (FBI) is developing an internal working group that will focus on service providers that form companies on behalf of offshore criminal interests. The working group will identify and develop actionable leads, initiate investigations, and work cooperatively with domestic and foreign law enforcement agencies to combat threats to the United States posed by criminal organizations operating through U.S. shell companies and other legal entities.

¹⁸ For more information on the money laundering threats associated with legal entities see Appendix A.

EXAMINE ANTI-MONEY LAUNDERING REGULATORY OVERSIGHT AND ENFORCEMENT AT CASINOS

Casinos are a high-volume cash-intensive industry and are among a broad and varied group of nonbank financial institutions that offer money laundering opportunities outside the traditional financial services system. A number of money laundering schemes using casinos have been reported by foreign and domestic law enforcement.¹⁹ The growth of the casino industry in recent years has been driven primarily by Native American tribes. A primary concern is to ensure that tribal gaming commissions understand their BSA compliance responsibilities.

FinCEN and the IRS will develop an aggressive outreach and supervisory campaign to reach as broadly as possible across the expanding universe of casinos to enforce established AML programmatic, reporting, and recordkeeping requirements. The law enforcement community will work through the Indian Gaming Working Group (IGWG), led by the FBI, to monitor tribal casinos for criminal conduct.

- FinCEN will leverage Federal supervision and enforcement resources by working with State and Tribal authorities to harmonize regulatory obligations, share information, and coordinate enforcement actions.
- FinCEN, in conjunction with the IRS, will enhance outreach to the Native American casino regulatory community to ensure the Native American tribes that own casinos fully implement the applicable BSA requirements, and to alert the sector to money laundering and terrorist financing indicators.
- FinCEN and the IRS will continue to implement a revised examination methodology to identify potentially non-compliant casinos. This new approach incorporates input from the casinos themselves, other regulators, and here law enforcement.²⁰
- The FBI will continue to lead the IGWG to identify investigative priorities and allocate resources for investigations of Tribal casinos. The IGWG consists of representatives from the FBI's financial crimes, public corruption, and organized crime programs as well as representatives from other Federal agencies.

¹⁹ For more information on money laundering using casinos see Appendix A.

²⁰ The IRS Tax Exempt and Government Entities – Office of Indian Tribal Governments is responsible for: (1) identifying all Tribal casinos subject to BSA regulation; (2) conducting and documenting BSA outreach; (3) maintaining a compliance database; and (4) assisting IRS SB/SE BSA with Tribal protocol issues and BSA examination case selection. The IRS SB/SE BSA unit is responsible for conducting BSA examinations of Tribal casinos.

IMPLEMENT AND ENFORCE ANTI-MONEY LAUNDERING REGULATIONS FOR THE INSURANCE INDUSTRY

Insurance companies are among a broad class of nonbank financial service providers that offer a wide variety of financial products. In addition to traditional insurance policies, insurers today also market savings and investment products and tax planning services. These various financial products and services can offer criminals opportunities for money laundering.²¹ A number of money laundering methods have been used to exploit insurance products, primarily life insurance policies and annuities.

Regulatory, supervisory, and law enforcement agencies will coordinate to enforce regulations that extend AML programmatic, reporting, and recordkeeping requirements to the insurance industry.

- FinCEN will provide outreach and training to the insurance industry to advise on the implementation of two recent regulations regarding BSA compliance obligations. Under the new rules, certain U.S. insurance companies are required to establish AML programs and file SARs. The final rules apply to insurance companies that issue or underwrite certain products that present an increased risk for money laundering and other illicit activity.

- FinCEN, in conjunction with the Federal banking regulators, will provide guidance on the application of the recent insurance rules to banking organizations that underwrite or sell insurance products and are already subject to BSA compliance obligations under the banking laws.
- OFAC will work with State regulators and the National Association of Insurance Commissioners to promote detection and prevention of money laundering schemes that may involve violations of U.S. trade and economic sanctions.
- IRS SB/SE BSA will work to sign an information-sharing MOU with State insurance regulators. The MOU provides both the IRS and the participating State the opportunity to leverage resources for BSA examinations, training, and outreach. FinCEN and the IRS are also developing examiner training materials.

²¹ For more information on money laundering using insurance products and U.S. countermeasures see Appendix A.

SUPPORT GLOBAL ANTI-MONEY LAUNDERING CAPACITY BUILDING AND ENFORCEMENT EFFORTS

Countries with lax AML regulation and enforcement pose a national security threat to the United States by providing a safe haven for criminal enterprise. New payment and communications technologies are opening up the world to transnational crime and creating new options for cross-border funds transfers.

The United States will work to detect, disrupt, dismantle, and defeat money laundering networks globally by promoting transparency in the international financial system and encouraging cooperation and coordination among diplomatic, financial, and law enforcement authorities. The United States will provide education, training, and support for countries seeking to protect themselves from money laundering and will work against countries that facilitate money laundering.

- U.S. law enforcement agencies will continue to devote resources to training foreign counterparts in the investigation of sophisticated money laundering methods. Transnational crime presents a growing challenge to the U.S. law enforcement community, requiring support from investigators and law enforcement agencies worldwide that understand modern crime fighting techniques.
- DEA, through its co-chairmanship of the International Drug Enforcement Conference (IDEC), a forum of 57 countries represented by the senior drug enforcement official for each country, will implement, through the IDEC, a global money flow strategy designed to identify and attack the flow of illegal drug money as it transits the globe from countries of drug abuse to countries of drug supply and bank secrecy havens.
- ICE, through its 56 international attaches, will continue to provide technical assistance and investigative support to foreign counterparts to facilitate international investigations into money laundering, bulk cash smuggling, and other transnational financial crimes.
- FinCEN will assist in the development of financial intelligence units that will receive, analyze, and disseminate financial intelligence to domestic law enforcement and share financial information with foreign counterparts.
- The Departments of the Treasury, State, Justice, and Homeland Security, the Federal functional regulators, and the law enforcement community, will work bilaterally, regionally, and through multilateral organizations, in support of the Financial Action Task Force (FATF) 40 Recommendations and Nine Special Recommendations for preventing money laundering and terrorist financing.
- The Department of State will continue to design, coordinate, and support efforts to develop comprehensive AML regimes globally, regionally, and bilaterally with the interagency community and through multilateral organizations including the United Nations Global Programme Against Money Laundering, the Organization of American States, the Pacific Islands Forum, and the FATF-Style Regional Bodies.
- The Federal bank regulators will continue to provide training and technical assistance to foreign bank supervisory officials for the development of AML compliance programs and program supervision.
- The Treasury, in consultation with the Departments of State and Justice, and other agencies as appropriate, will use Section 311 of the USA PATRIOT Act to safeguard our financial system from foreign money laundering threats. Under this authority, U.S. financial institutions may be required to take one or more special measures when dealing with a foreign jurisdiction, financial institution, class of transaction, or type of account designated to be of primary money laundering concern.

- In conjunction with the National Strategy to Internationalize Efforts against Kleptocracy, launched in August 2006, the U.S. Government will employ its tools and authorities to target, trace, seize, and forfeit assets misappropriated by current and former senior foreign government or political officials, their close associates, and immediate family members or other politically exposed persons and deny them access to the international financial system.
- The Treasury, in collaboration with the Department of State, the Federal banking regulators, and other agencies as appropriate, will work directly with the private sector on AML program implementation in regions of global strategic significance. This initiative complements the development and implementation of jurisdictional AML controls.
- The Treasury will continue working closely with the International Monetary Fund (IMF) and the World Bank Group to promote member country programs against money laundering and will continue to help guide improvements through targeted technical assistance both directly and through the IMF and World Bank. By the end of 2005, the IMF and World Bank had conducted more than 50 assessments of member countries' compliance with the standards of the FATF and had provided technical assistance on related projects in more than 125 countries. The Treasury is also working with the multilateral development banks to strengthen their internal controls, and is encouraging the regional development banks to carry out internal risk assessments similar to those undertaken by the World Bank.

IMPROVE HOW WE MEASURE OUR PROGRESS

Masuring the scope of the money laundering threat and the effectiveness of law enforcement and regulatory countermeasures remains a challenge. There are no objective, quantitative benchmarks that provide a starting point because of the unreported volume of financial crime. All efforts to quantify the problem are estimates.²²

Traditional measures of our effectiveness against money laundering, such as the volume of seized or forfeited assets, indictments, and BSA filings, although imperfect, do offer useful information and are indicators of the progress the United States is making against money laundering. The United States must work toward more effectively identifying and connecting criminal activity, illicit cash, money laundering methods, cases, and outcomes.

- OCDETF will support the compilation of money laundering prosecution statistics by providing data contained in its management information system regarding results achieved in OCDETF designated cases. OCDETF collects data on 14 primary money laundering activity categories to evaluate the program's progress toward attacking the financial infrastructure of major drug trafficking organizations. These 14 categories cover the most prevalent and sophisticated money laundering methods used by major drug trafficking organizations.

- ICE will compile investigative data, using the Treasury Enforcement Communications System (TECS II), which serves as the ICE investigative database for case management. TECS II contains data relating to transnational and cross-border financial crimes, including bulk cash smuggling violations, cases involving failure to file a Report of International Transportation of Currency or Monetary Instruments (CMIR)²³, and money laundering cases.
- FinCEN and other offices of the Treasury will work with the Federal law enforcement community to develop a process to evaluate and report on law enforcement's use of BSA reporting in their investigations. This information will provide meaningful feedback to the financial community on the value of this information to law enforcement, and will assist institutions in the enhancement of their AML and Suspicious Activity Reporting programs.

²² The FATF Mutual Evaluation Report (MER) of the United States, supra note 1 and accompanying text, measures the U.S. AML/CFT regime against the FATF 40 Recommendations and 9 Special Recommendations and is a significant benchmark of the effectiveness of the U.S. AML/CFT system.

²³ 31 U.S.C. 5316 requires individuals to report the transport or transfer of more than \$10,000 in currency or monetary instruments into or out of the United States.

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INTRODUCTION

The 2005 Money Laundering Threat Assessment (MLTA) is the first government-wide analysis of money laundering in the United States. The report is the product of an interagency working group composed of experts from the spectrum of U.S. Government agencies, bureaus, and offices that study and combat money laundering. The purpose of the MLTA is to help policy makers, regulators, and the law enforcement community better understand the landscape of money laundering in the United States and to support strategic planning efforts to combat money laundering.

The working group synthesized law enforcement statistics and observations, regulatory data (such as Bank Secrecy Act filings), private sector studies, and public information to assess the vulnerabilities that allow criminals to launder money through particular money laundering methods or conduits.

The MLTA offers a detailed analysis of thirteen money laundering methods, ranging from well-established techniques for integrating dirty money into the financial system to modern innovations that exploit global payment networks as well as the Internet. Each chapter focuses on a specific money laundering method and provides a brief overview of the methodology, an assessment of vulnerabilities – including geographic or other noted concentrations – and the regulatory/public policy backdrop.

While not exhaustive, the assessment consolidates a tremendous amount of information and insight contributed by the various participating agencies as to the major methods of money laundering that they confront. The overall picture is both sobering and promising. The volume of dirty money circulating through the United States is undeniably vast and criminals are enjoying new advantages with globalization and the advent of new financial services such as stored value cards and online payment systems. At the same time, there has been considerable progress. The approach of U.S. law enforcement and regulatory agencies has undergone a sea change over the past decade, such that money laundering is now treated as an independent and primary focus across all relevant agencies. With this change in approach and focus have come marked improvements in both systemic and applied anti-money laundering

(AML) efforts. Most encouraging are interagency initiatives and task forces that, when properly coordinated, bring the talents, expertise, and resources of multiple agencies to bear on a problem to great effect. With so many agencies looking at distinct but related aspects of this issue, it is critical that information be shared freely and studied jointly. Highlighted below are some notable examples of recent U.S. agency advances in organization, analysis, and execution in the fight against money laundering:

U.S. Immigration and Customs Enforcement (ICE), has introduced many new initiatives aimed at analyzing and combating the movement of illicit funds by bulk cash smuggling, trade-based money laundering, courier hubs, money services businesses (MSBs), charities, and alternative remittance systems. These initiatives include:

- Operation Cornerstone, founded in 2003 – a private industry partnership and aggressive outreach program;
- A Trade Transparency Unit (TTU) aimed at identifying anomalies related to cross-border trade indicative of money laundering;
- A multi-agency approach (in partnership with Internal Revenue Service – Criminal Investigation (IRS-CI), FinCEN, and the Federal Bureau of Investigation (FBI)) to target unlicensed MSBs; and
- A Foreign Political Corruption Task Force in Miami to address foreign public corruption and related money laundering.

With respect to bulk cash smuggling in particular, ICE is:

- Working with Customs and Border Protection (CBP) to share training and expertise with the Mexican government as to how to execute successful bulk cash smuggling interdiction operations;
- Providing training in bulk cash smuggling interdiction to 28 developing countries in the Middle East, South America, Africa, and Asia, in concert with CBP and the State Department; and

- Conducting training in bulk cash smuggling interdiction, funded by the Executive Office for Organized Crime Drug Enforcement Task Forces (OCDETF), in seven major cities throughout the United States, attended by federal, state and local law enforcement.

The FBI is working to develop advanced technologies to exploit Suspicious Activity Reports (SARs) and other Bank Secrecy Act (BSA) data from FinCEN by using computer software to visualize financial patterns, link distinct criminal activities, and display the activity in link analysis charts. The FBI is also implementing a next-generation electronic file management system that will help manage investigative, administrative, and intelligence needs while also improving ways to encourage information sharing with other agencies.

The Administrator of the Drug Enforcement Administration (DEA) issued a directive in 2003 restoring DEA's primary focus to the financial aspects of drug investigations. Currently, every DEA investigation includes a financial component. DEA also undertook the following steps to promote this focus:

- Established an Office of Financial Operations;
- Established specialized money laundering groups in every DEA Field Division, and increased Special Agent resources devoted to money laundering investigations in key foreign offices;
- Created and presented specialized money laundering training to DEA agents and analysts;
- Established a "Bulk Currency Initiative" to coordinate all U.S. highway money seizures for the purpose of developing the evidence necessary to identify, disrupt, and dismantle large-scale narcotics trafficking organizations; and
- Initiated a global money flow study, through its position as chair of the International Drug Enforcement Conference, to identify and target drug proceeds flowing from countries of drug abuse to countries of drug supply.

The IRS, as part of its core tax administration mission, addresses both the criminal and civil aspects of money laundering. IRS-CI special agents "follow the money"

within various inter-agency task forces and centers. IRS-CI also has 41 active Suspicious Activity Report Review Teams (SAR-RT) reviewing and analyzing SAR data for case development and support throughout the country. Recently-acquired "data mining" software is improving the ability of IRS-CI's investigators and analysts to make connections and identify patterns in the SAR data.

On the civil side, the IRS established a new organization within its Small Business/Self-employed (SB/SE) Division, the Office of Fraud/BSA, which has end-to-end accountability for BSA oversight of certain non-bank financial institutions. There are over 300 examiners and managers who are fully trained and dedicated full-time to the BSA program. The IRS has also completed a model Federal/State Memorandum of Understanding which provides both IRS and the participating state the opportunity to leverage resources for BSA examinations, outreach, and training.

Treasury's Office of Terrorist Financing and Financial Crime (TFFC), a part of the Office of Terrorism and Financial Intelligence, is working to develop and drive anti-money laundering policy and initiatives at home and abroad. A primary initiative of this office is to lead the interagency development of the *National Money Laundering Strategy*. In crafting this and other strategies, TFFC works with the law enforcement, regulatory, and intelligence communities, in addition to the private sector and overseas counterparts, to identify and address systemic vulnerabilities. In addition, TFFC, along with inter-agency counterparts, has been a driving force behind the worldwide propagation of strong anti-money laundering standards via the Financial Action Task Force (FATF), the preeminent international body on money laundering issues. Over the past two years, scores of new countries – from North Africa to the Persian Gulf region to Eurasia – have joined FATF-style regional bodies, such that over 150 nations have now committed themselves to adopting FATF's standards and to being evaluated against them.

The BSA, administered by the Treasury Department's Financial Crimes Enforcement Network (FinCEN), is the cornerstone of the U.S. Government's AML framework and was recently expanded in scope and depth. Today, businesses under the BSA umbrella include casinos, jewelers, MSBs (such as check cashers and money transmitters), securities dealers, and others.

FinCEN is itself undergoing a broad transformation. The bureau is changing the way it analyzes information, moving away from functioning simply as a clearinghouse, and moving towards higher-level research and analysis, which will utilize all sources of information to analyze the cutting-edge systems of money laundering and illicit finance. FinCEN has also signed memoranda of understanding with the federal regulatory agencies that have received delegated authority from FinCEN to examine financial institutions for compliance with the BSA. The goal is better coordination and communication leading to effective implementation and enforcement of the BSA, which ultimately should help to achieve a sustained and successful attack on money laundering in the United States.

The U.S. Postal Inspection Service (USPIS) enjoys the advantage of having more than 100,000 postal clerks and managers on the alert for possible suspicious activity. These employees file over 500 SARs per week to the U.S. Postal Service (USPS) BSA Compliance Office. USPIS recently established an Intelligence Analysis Unit (IAU) at its headquarters office to ensure that these reports as well as back room analysis are being utilized effectively. The IAU methodically analyzes the USPS BSA database, searching for clues that might indicate major money laundering operations and possible terrorist financing schemes. The IAU both responds to investigative inquiries from field inspectors and proactively initiates investigative leads for the field.

The Department of Justice's Asset Forfeiture and Money Laundering Section (AFMLS) reports that the USA PATRIOT Act provided a number of new tools to identify and track criminal proceeds. Section 319(a) has been of particular importance, allowing the government to capture criminal assets held abroad if the criminal proceeds are deposited in a foreign bank that maintains a correspondent account in the United States. The Civil Asset Reform Act of 2000 is another important tool assisting federal law enforcement in making asset forfeitures. The law makes possible both the criminal and civil forfeiture of the proceeds of all specified unlawful activities. Many U.S. Attorney's Offices will not approve an indictment for presentation to the grand jury until a forfeiture specialist has reviewed it for possible criminal forfeiture

and/or the filing of a parallel civil forfeiture complaint.

In 2005, the Departments of Justice, Homeland Security,¹ and Treasury established a multi-agency drug and financial intelligence fusion center through the OCDETF program. Leads resulting from the efforts of the Fusion Center will support the initiation and development of coordinated international, national, and regional investigations. AFMLS, in partnership with OCDETF, has conducted Financial Investigation Training Seminars in every OCDETF region in the country during the past two years.

The National Drug Intelligence Center (NDIC), whose mission is to develop strategic domestic drug intelligence, created a Money Laundering Unit in January 2005 to provide a multi-source fusion capability for money laundering-related information. The mission of this unit is to identify strategic money laundering trends and patterns for national policy makers.

The Treasury Executive Office for Asset Forfeiture (TEOAF) administers the Treasury Forfeiture Fund, and has implemented a strategic focus on promoting "high impact cases," or cases that generate \$100,000 or more in forfeited value. In FY 2004, the Fund received more than \$335 million in revenue, 84% of which was derived from "high impact cases." TEOAF then uses this money to fund law enforcement training, special programs, and criminal investigations.



Legal, structural, and strategic advances improve the ability of U.S. agencies to track and combat money launderers. That said, money laundering remains a massive and evolving challenge that will require clear, strategic thinking. Measuring the problem is an essential first step. Studies have traditionally looked to that portion of illicit activity that is apprehended by authorities as an indicator of the types of money laundering going on and trends within the field. Such indicators include seized or forfeited assets, indictments, and BSA filings

¹ The United States Coast Guard.

by financial institutions, such as SARs. Each of these is admittedly imperfect, but could offer much useful information.

Unfortunately, however, the data are not as developed as they should be and not collected in a systematic way across the U.S. government. It is currently not possible, for example, to quantify with accuracy the total amount of money laundering activity being apprehended by federal law enforcement agencies, let alone state and local law enforcement. Individual tracking systems developed and tailored to meet particular agency priorities and needs have yielded often incompatible systems. Problems include data fields that are collected by some but not all agencies, disparities in definitions, and redundancies wherein two or more agencies log the same seizure or arrest because the case was handled through a joint task force. Agencies may not even share common definitions of what constitutes "money laundering proceeds," or what nexus to the United States warrants defining illicit activity as "United States" money laundering.

Appendices to this assessment make the most of the existing data to offer a rough quantitative analysis of money laundering concentrations. Going forward, though, more data needs to be collected in a more consistent way across agencies. Of particular importance is information that would track, with respect to every money laundering seizure, the following: (1) the predicate crime, (2) the money laundering method/s utilized, and (3) the source and suspected destination of the proceeds. Accurate, comprehensive data is vitally important if we are to assess whether we are collectively gaining ground, keeping pace, or falling behind criminal money launderers in each of the various methodologies that they employ.

BANKING

Banks and other depository financial institutions in the United States are unique in that they alone are allowed to engage in the business of receiving deposits and providing direct access to those deposits through the payments system. The payments system encompasses paper checks and various electronic payment networks facilitating credit and debit cards and bank-to-bank transfers. The unique role banks play makes them the first line of defense against money laundering.

Depository financial institutions (DFIs), which include commercial banks, savings and loan associations (also called thrifts), and credit unions form the financial backbone of the United States.² Although Money Service Businesses (MSBs) may offer an alternative to banks, MSBs must themselves engage the services of a DFI to hold deposits, clear checks, and settle transactions. Thus in almost every money laundering typology, a bank is employed domestically or abroad to hold or move funds. The stage at which funds are introduced into the banking system is a critical one. A report from the New York Clearing House, which operates bank payment systems, acknowledges: "Once a person is able to inject funds into the payment system that are a product of a criminal act or are intended to finance a criminal act, it is highly difficult, and in many cases impossible, to identify those funds as they move from bank to bank."³

The BSA requires banks to establish and maintain effective anti-money laundering (AML) programs, implement customer identification programs, and maintain transaction records. Banks also are obligated to report cash transactions exceeding \$10,000 as well as transactions that appear suspicious.

Banks are ubiquitous in the United States but industry consolidation, due to deregulation and competitive pres-

ures, is reducing the number of distinct DFIs. At year end in 2004 there were, for the first time since the FDIC was created in 1934, fewer than 9,000 federally-insured commercial banks and savings institutions in the United States, not including credit unions.⁴

Another significant development in the banking sector is the ongoing decline in the use of paper checks. By 2003, for the first time, most payments not made by cash were made electronically, though it takes all forms of electronic payments combined to rival the number of checks paid. Previously, paper checks ranked right behind cash as the most favored form of payment. By the end of the decade, the Federal Reserve predicts credit and debit card payments will each surpass check volume.⁵

The shift from paper to electronic payments is changing the economics of the payments business putting emphasis on lowering costs. In response, banks are increasingly using the Internet as a means for customers to open or access accounts.⁶ Moving away from face-to-face customer interaction, particularly for account openings, challenges the traditional process of customer due diligence. Similarly, the steady influx of immigrants without U.S. Government-issued identification is requiring banks to explore new ways to verify the identity of their customers.

Despite the rapid growth in electronic payments and the accelerating pace of change in financial services, domestic payment networks in countries around the world do not connect with one another. A bank in the United States cannot transmit a payment directly to a foreign bank unless the U.S. bank has a presence in the foreign country. That presence can be either an overseas branch of the U.S. bank or a correspondent account. A bank chartered in a foreign country faces the same option if it wants to provide services in the United States for its customers. Instead of bearing the costs of licensing, staffing, and operating its own offices in the United States,

² The term "bank" will be used generically in this chapter to refer to all forms of DFI.

³ Guidelines for Counter Money Laundering Policies and Procedures in Correspondent Banking, sponsored by the New York Clearing House Association, LLC, March 2002.

⁴ FDIC Quarterly Banking Profile, Fourth Quarter 2004. Accessed at: <http://www2.fdic.gov/qbp/2004dec/qbp.pdf>.

⁵ The 2004 Federal Reserve Payments Study, December 15, 2004.

⁶ Saranow, Jennifer, Banks Speed Process for Opening Online Accounts, Wall Street Journal, Feb. 3, 2005.

the bank can open a correspondent account with a U.S. bank.⁷ According to a Congressional report on money laundering and correspondent banking: "Today, banks establish multiple correspondent relationships throughout the world in order to engage in international financial transactions for themselves and their clients in places where they do not have a physical presence. Many of the largest international banks serve as correspondents for thousands of other banks."⁸

Banks, although obligated to implement a customer identification program, must contend with businesses and consumers who may attempt to disguise their true identity and source of income. Cash-intensive businesses, for example, may inflate how much legitimate cash comes in each day to disguise the deposit of cash from illegal drug sales or other criminal activity. Banks attempt to spot these deceptions at the point accounts are opened or to recognize suspicious deposit and withdrawal activity as it occurs.

As banks venture into opening accounts online and providing online account access, it becomes increasingly difficult to verify customer identification. The move away from face-to-face account opening and account access creates opportunities for fraud and identity theft. Unauthorized access to checking accounts is the fastest growing form of identity theft. In October 2005, the Federal Financial Institutions Examination Council (FFIEC), a body composed of the DFI federal regulatory agencies, issued industry guidance titled: Authentication in an Internet Banking Environment. The document advises financial institutions offering Internet-based products and services to use customer authentication techniques "appropriate to those products and services."⁹ According to HSBC, banks may be forced to restrict online ac-

cess only to customers with appropriate hardware and/or software.¹⁰

In addition to the difficulty financial institutions face identifying their customers online, the growing adoption of electronic payment systems is producing new opportunities for electronic fraud.¹¹ New forms of electronic funds transfers, including Internet- and telephone-initiated payments, and the conversion at the point-of-sale of paper checks to electronic debits, all use the automated clearinghouse (ACH), an electronic payment network designed for bank-to-bank transactions rather than for direct access by consumers and businesses.¹² More than 12 billion ACH payments were made in 2004, a 20 percent increase over 2003.¹³ Consumers initiated almost one billion ACH payments via the Internet, worth more than \$300 billion last year, which was a 40.4 percent increase over 2003.¹⁴

A major vulnerability the BSA attempts to address is foreigners sending and receiving payments through U.S. banks using "correspondent," "payable through," or "nested" accounts, which, without adequate due diligence, can shield the payer's true identity. The farther removed an individual or entity is from the bank, the more difficult it is to verify the identity of the customer. Correspondent accounts and "payable through" accounts streamline cross-border transactions but create opportunities to use a U.S. or foreign bank without the bank knowing the true payment originator. A "payable through" account at a U.S. bank would, for example, involve a foreign bank holding a checking account at the U.S. institution. The foreign bank could then issue checks to its customers allowing them to write checks on the U.S. account. A foreign bank may have several hundred customers writing checks on one "payable through" account, and all are considered signatories on the account at the U.S. bank.

⁷ Minority Staff of the Permanent Subcommittee on Investigations Report on Correspondent Banking: A Gateway for Money Laundering, February 5, 2001.

⁸ *Ibid.*

⁹ FFIEC, Authentication in an Internet Banking Environment. Accessed at: http://www.ffiec.gov/pdf/authentication_guidance.pdf.

¹⁰ Goodwin, Bill, *HSBC Warns Of Online Banking Bans*, Computerweekly.com, April 12, 2005. Accessed at: <http://www.computerweekly.com/articles/article.asp?liArticleID=137822&liArticleTypeID=1&liCategoryID=6&liChannelID=22&liFlavourID=1&sSearch=&nPage=1#>.

¹¹ Putting an End to Account-Hijacking Identity Theft, FDIC, Division of Supervision and Consumer Protection Technology Supervision Branch, December 14, 2004.

¹² The ACH was designed for low value recurring transactions, specifically direct deposit of payroll and monthly consumer bill payments that remain the same each month.

¹³ The National Automated Clearing House Association. Accessed at: <http://www.nacha.org/>.

¹⁴ *Ibid.*

A variation on the “payable through” account is “nesting,” in which foreign banks open correspondent accounts at U.S. banks but then solicit other foreign banks to use the account. Nested accounts provide indirect access to the U.S. financial system by allowing a foreign bank that does not have a direct correspondent relationship with a U.S. financial institution to use another bank’s U.S. correspondent account. These second-tier foreign banks then solicit individuals as customers. This results in an exponential increase in the number of individuals having signatory authority over a single account at a U.S. banking entity.

Of particular concern are foreign “shell banks” – foreign banks that do not maintain a physical presence in any country – that seek to access the U.S. financial system via correspondent accounts.

As cross border wire transfers come under increased scrutiny and regulation, criminals have found paper checks, money orders, and cashier’s checks to be an effective method to move money internationally. These more traditional payment instruments take a longer time to clear when traveling outside the United States but are perceived by money launderers as being subject to less scrutiny.

Money launderers can transfer large dollar amounts by writing a number of checks or buying a number of money orders at various U.S. locations, with each payment below the reporting threshold. The dollar-denominated payments are mailed or transported to accomplices overseas who deposit the checks and other payments in foreign bank accounts. Because these are dollar-denominated payments, the foreign banks that receive them send them back to the United States for deposit

in their U.S. correspondent accounts. The checks and money orders are bundled up at the foreign banks and sent with a deposit slip (referred to in the industry as a “cash letter”) with the details of each check and money order. The U.S. correspondent bank credits the foreign bank’s U.S. account and routes the individual payment instruments to the appropriate paying banks and other institutions.

Some banks handle as many as five to seven million checks a day delivered by shipping companies in pouches and overnight bags. Processing is done as efficiently as possible, making it very difficult to aggregate related payments or scrutinize individual payments for evidence of money laundering.

Private banking is defined as “the personal or discreet offering of a wide variety of financial services and products to the affluent market. These operations typically offer all-inclusive personalized services. Individuals, commercial businesses, law firms, investment advisors, trusts, and personal investment companies may open private banking accounts.”¹⁶ Private banking relationships have proved problematic. In contrast to “nesting” or “payable through” accounts, money laundering through private banking relationships more often involves a gross failure of due diligence, if not bank complicity.

Riggs National Bank was fined over forty million dollars as a consequence of serious deficiencies in its AML program, including in its private banking practice.¹⁷ Riggs opened multiple private banking accounts for former Chilean dictator Augusto Pinochet, among other politically exposed persons, accepting millions of dollars in deposits under various corporate and individual account names and paying little or no attention to suspicious activity in these accounts.¹⁸ Other major banks have also

¹⁵ This section is drawn from the testimony of John F. Moynihan and Larry C. Johnson, partners, BERG Associates, LLC, before the House Committee on Financial Services, Subcommittee on Oversight and Investigations, March 11, 2003.

¹⁶ Money Laundering: A Banker’s Guide to Avoiding Problems, Office of the Comptroller of the Currency, Dec, 2002. Accessed at: <http://www.occ.treas.gov/moneylaundering2002.pdf>.

¹⁷ See, e.g., *In the Matter of Riggs Bank, N.A.*, No. 2004-01, Assessment of Civil Monetary Penalty (May 13, 2004); “Money Laundering and Foreign Corruption: Enforcement and Effectiveness of the Patriot Act,” Supplemental Staff Report on U.S. Accounts Used by Augusto Pinochet, U.S. Senate Permanent Subcommittee on Investigations, March 16, 2005.

¹⁸ Guidance on applying scrutiny to situations of this type has been available for some time. See Guidance on Enhanced Scrutiny for Transactions that May Involve the Proceeds of Foreign Corruption (January 2001). Accessed at: <http://www.federalreserve.gov/boarddocs/SRLETTERS/2001/sr0103a1.pdf>.

come under criticism for the laxity of their private banking AML policies and procedures.¹⁹

In 2003, ICE established a Politically Exposed Person (PEP) Task Force in Miami to address the vulnerability of relationships between private banks and corrupt foreign officials. The PEP Task Force works with ICE field offices and foreign governments in the identification of public corruption-related proceeds laundered through U.S. financial institutions. Increasingly, Central American, South American, and Caribbean governments are seeking the assistance of the United States in developing evidence against, and locating the assets of, corrupt government officials and prominent citizens involved in the theft or embezzlement of public and private funds. ICE agents are currently investigating several cases that involve illicit funds channeled into the United States from Caribbean, Central American, South American, and Pacific Rim countries that were used to purchase assets domestically and abroad.

Under the BSA, all financial institutions must develop, administer, and maintain a program that ensures compliance with the law's reporting and recordkeeping requirements. The compliance program is tailored to a bank's business operations and risks. By law, the program must include the following four components:

- A system of internal controls to assure ongoing BSA compliance;
- Independent testing of the DFI's compliance;
- The designation of an individual responsible for coordinating and monitoring day-to-day compliance; and
- Training for appropriate personnel.²⁰

Banks and certain other DFIs must implement a written customer identification program appropriate for their size, location, and type of business.²¹ The program must include account-opening procedures that specify the identifying information that will be obtained from each customer, and it must include reasonable and practical risk-based procedures for verifying the customer's identity. The procedures are supposed to enable a bank to form a reasonable belief that it knows the true identity of each customer.

DFIs are required to file SARs, reporting any instances of known or suspected illegal or suspicious activity.²² To ensure that it will be able to identify suspicious activity, a DFI should have in place a customer due diligence (CDD) program under which the organization (1) assesses the risks associated with a customer account or transaction, and (2) gathers sufficient information to evaluate whether a particular transaction warrants the filing of a SAR. In addition, appropriate systems and controls are to be in place to monitor and identify suspicious or unusual activity. CDD protocols vary depending on the activities associated with different types and volumes of banking transactions and their risk. (See Tables 1 and 2 for SAR data analysis).

The number of SARs filed by depository institutions from 1996 through 2003 increased on average by more than 25% annually.²³ The total number of suspicious activity reports filed in 2005 is projected to surpass 700,000. FinCEN indicates that some of this increase is warranted, while some may be attributed to "defensive filing" by financial institutions, in which SARs are filed on non-suspicious transactions out of concern about regulatory and criminal scrutiny. Such defensive filing dilutes the value of the information in the BSA database.²⁴

Examination authority over banks and other depository institutions for BSA compliance has been delegated by

¹⁹ Testimony of Herbert A. Biern, Senior Associate Director, Division of Banking Supervision and Regulation, Federal Reserve Board, before the Committee on International Relations, U.S. House of Representatives November 17, 2004.

²⁰ See 31 U.S.C. § 5318(h)(1).

²¹ See 31 U.S.C. § 5318(l) and 31 C.F.R. § 103.121 (for banks, savings associations, credit unions, and certain non-federally regulated banks).

²² See 31 U.S.C. § 5318(g).

²³ FinCEN, *By The Numbers*, Issue 3, Dec. 2004.

²⁴ Statement of William Fox, Director Financial Crime Enforcement Network, United States Department of the Treasury, before the United States House of Representatives Committee on Financial Services Subcommittee on Oversight and Investigations, May 26, 2005.

FinCEN to the industry's five functional regulators.²⁵ The federal bank regulators include a review of BSA compliance in their periodic examinations. In the second half of 2004, the federal banking regulators completed 44 public enforcement actions involving BSA violations. Among the problems most often cited was the lack of independent testing to validate BSA compliance. In about 60% of the BSA cases that were closed in the second half, a bank was ordered to arrange for testing or was cited for failure to do so.²⁶ Several banks in recent years have faced severe criminal and civil penalties as a consequence of BSA lapses.

In June 2005, the FFIEC released a joint BSA/AML examination manual. This manual will assist examiners in evaluating banks' BSA/AML compliance programs, regardless of the size or business lines of the bank. This manual should provide for enhanced consistency in the interpretation of BSA and AML requirements across the various agencies.

With respect to shell banks, Section 313 of the USA PATRIOT Act and its implementing regulations prohibit covered U.S. banks and broker-dealers from establishing, maintaining, administering, or managing a correspondent account for a foreign shell bank.²⁷ In addition, U.S. banks and broker-dealers must take reasonable measures to ensure that any correspondent account that they establish, maintain, administer, or manage for a foreign bank is not being used by the foreign bank to provide banking services indirectly to a foreign shell bank.²⁸

Section 312 of the USA PATRIOT Act provides, among other things, for enhanced due diligence with respect to certain correspondent accounts held on behalf of banks operating under an offshore license and also mandates enhanced scrutiny for private banking accounts maintained for senior foreign political figures.

Finally, Section 319 requires covered financial institutions that provide correspondent accounts to foreign banks to maintain records of the foreign bank's owners and to maintain the name and address of an agent in the United States designated to accept service of legal process for the foreign bank for records regarding the correspondent account.

²⁵ The five functional regulators for the banking industry include the Board of Governors of the Federal Reserve System (Federal Reserve), the Federal Deposit Insurance Corporation, the National Credit Union Association, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. State-chartered private banks, trust companies, and credit unions without federal insurance have no federal functional regulator, and come under the purview of the IRS SB/SE Division for purposes of BSA examination.

²⁶ Vartanian, Thomas P., Focus on BSA, Laundering Continued; Bank Secrecy Act, American Banker, April 1, 2005.

²⁷ 31 U.S.C. §5318(j)(1); 31 CFR 103.177(a)(1)

²⁸ 31 U.S.C. §5318(j)(2); 31 CFR 103.177(a)(1).

Rank	State/Territory	Filings (Overall)	Percentage (Overall)
1	California	351,784	24.26%
2	New York	167,635	11.56%
3	Texas	92,168	6.36%
4	Florida	89,413	6.17%
5	Illinois	51,004	3.52%
6	Arizona	48,691	3.36%
7	New Jersey	41,403	2.86%
8	Pennsylvania	37,765	2.60%
9	Ohio	34,634	2.39%
10	Michigan	34,506	2.38%

The top ten states for Suspicious Activity Report filings from depository institutions from April 1, 1996 through June 30, 2004 account for two-thirds of all SARs for the period. Source: FinCEN, *By The Numbers*, Issue 3.

Violation Type	Filings (Overall)	Percentage (Overall)
BSA/Structuring/Money Laundering	769,502	48.22%
Check Fraud	185,839	11.65%
Other	136,021	8.52%
Credit Card Fraud	77,970	4.89%
Counterfeit Check	74,891	4.69%
Check Kiting	55,940	3.51%
Unknown/Blank	46,783	2.93%
Defalcation/Embezzlement	46,323	2.90%
Mortgage Loan Fraud	40,016	2.51%
Consumer Loan Fraud	27,240	1.71%
False Statement	26,724	1.67%
Misuse of Position or Self Dealing	18,460	1.16%
Wire Transfer Fraud	17,634	1.11%
Mysterious Disappearance	17,375	1.09%
Debit Card Fraud	11,315	Less than 1%
Commercial Loan Fraud	10,699	Less than 1%
Identity Theft*	10,188	Less than 1%
Computer Intrusion*	8,319	Less than 1%
Counterfeit Credit/Debit Card	6,573	Less than 1%
Counterfeit Instrument (Other)	5,142	Less than 1%
Bribery/Gratuity	1,799	Less than 1%
Terrorist Financing*	971	Less than 1%

Suspicious Activity Reports filed by depository institutions ranked by suspicious activity, based on filings from April 1, 1996 to June 30, 2004.

* The category "computer intrusion" was added June 2000 and "identity theft" and "terrorist financing" were added July 2003. Source: FinCEN, *By The Numbers*, Issue 3.

MONEY SERVICES BUSINESSES

Money Services Businesses (MSBs) provide a full range of financial products and services outside of the banking system. For individuals who may not have ready access to the formal banking sector, MSBs provide a valuable service. They also pose a considerable threat. MSBs in the United States are expanding at a rapid rate, often operate without supervision, and transact business with overseas counterparts that are largely unregulated. Moreover, their services are available without the necessity of opening an account. As other financial institutions come under greater scrutiny in their implementation of and compliance with BSA requirements, MSBs have become increasingly attractive to financial criminals.

Under existing BSA regulations, MSBs are defined to include five distinct types of financial services providers (including the U.S. Postal Service (USPS)): (1) currency dealers or exchangers; (2) check cashers; (3) issuers of traveler's checks, money orders, or stored value cards; (4) sellers or redeemers of traveler's checks, money orders, or stored value; and (5) money transmitters. Because of the great variance in characteristics and vulnerabilities across the various types of MSB, the main categories of MSBs will be treated in separate subchapters below. Some introductory remarks follow that pertain to all MSBs.

With limited exceptions, MSBs are subject to the full range of BSA regulatory controls, including the AML rule, suspicious activity and currency transaction reporting rules, and various other identification and

recordkeeping rules.²⁹ Additionally, existing BSA regulations require certain MSB principals to register with the Treasury Department.³⁰ Federal regulations contain a definitional threshold for all MSBs except for money transmitters: A business that engages in MSB-type transactions will be considered an MSB only if it conducts more than \$1,000 of transactions in a particular category of money services transactions for any person on any day (in one or more transactions).³¹ Finally, many states have established AML supervisory requirements that are often incorporated into the requirement that an MSB be licensed with the state in which it is incorporated or does business.

Many MSBs, including the vast majority of money transmitters in the United States, operate through a system of agents. While agents are not presently required to register, they are themselves MSBs that are required to establish AML programs and comply with the other recordkeeping and reporting requirements described above. A 1997 Coopers & Lybrand study (Coopers Study) estimated that approximately eight business enterprises, through a system of agents, accounted for the bulk of MSB financial products offered within the United States and the bulk of locations at which these financial products were offered. This group comprises large firms with significant capitalization that are publicly traded on major securities exchanges. A larger group of, on average, far smaller enterprises competes with the largest firms in a highly bifurcated market for

²⁹ See 31 CFR 103.125 (requirement for money services businesses to establish and maintain an anti-money laundering program); 31 CFR 103.22 (requirement for money services businesses to file currency transaction reports); 31 CFR 103.20 (requirement for money services businesses to file suspicious activity reports, other than for check cashing and stored value transactions); 31 CFR 103.29 (requirement for money services businesses that sell money orders, traveler's checks, or other instruments for cash to verify the identity of the customer and create and maintain a record of each cash purchase between \$3,000 and \$10,000, inclusive); 31 CFR 103.33(f) and (g) (rules applicable to certain transmittals of funds); and 31 CFR 103.37 (additional recordkeeping requirement for currency exchangers including the requirement to create and maintain a record of each exchange of currency in excess of \$1,000).

³⁰ See 31 CFR 103.41. The registration requirement applies to all money services businesses (whether or not licensed as a money services business by any state) except the U.S. Postal Service; agencies of the United States, of any state, or of any political subdivision of a state; issuers, sellers, or redeemers of stored value, or any person that is a money services business solely because that person serves as an agent of another money services business (however, a money services business that engages in activities described in § 103.11(uu) both on its own behalf and as an agent for others is required to register).

³¹ See 31 CFR 103.11(uu).

money services.³² These small enterprises may own only one location with two to four employees, and may provide both financial services and unrelated services or products.³³ Less is known about this second tier of firms than about the major providers of money service products.

Based on the Coopers Study, FinCEN estimated the number of MSBs nationwide in 1997 to be in excess of 200,000. A majority of the MSB population is made up of agents of the major businesses (e.g., Western Union and MoneyGram). Additionally, in 1997, approximately 40,000 MSBs were outlets of the USPS, which sells money orders.

Outside of the major firms, rates of registration with Treasury have remained low. Despite repeated outreach efforts to the sector, only a small fraction of the total MSBs – around 23,000 – have registered with the federal government.³⁴ FinCEN notes that small MSBs are largely aware of the pertinent regulations but fail to register because of language, culture, cost, and training issues.

The fleeting nature of the customer's relationship with an MSB is a significant vulnerability. In contrast to banks, one does not need to be an existing "customer" of an MSB and a customer can repeatedly use different MSBs to transact business. This makes customer due diligence very difficult.

MSBs are used at all stages of the money laundering process. A review of SARs filed³⁵ by MSBs from October 1, 2002 through December 31, 2004 shows that money laundering and structuring represented the most frequently reported suspicious activity, cited in over 73% of MSB SARs filed. These reports point most

commonly to customers attempting to evade the \$3,000 funds transfer recordkeeping requirement (or the \$3,000 recordkeeping requirement for cash purchases of money orders or traveler's checks) by either breaking up a large transaction into smaller transactions or by spreading transactions out over two or more customers.

OCDETF identifies MSBs as an increasingly-prevalent conduit for laundering illicit proceeds. From 2002 to 2004, OCDETF saw a 5 percent increase in MSB-related cases, with the proportion of total money laundering cases growing from 11% to 16%.

FBI field offices consistently identified MSBs as the third-most utilized money laundering method that they encounter, after formal banking systems and cash businesses, and particularly pointed to money remitters as a threat. MSBs co-located with convenience stores

CASE EXAMPLE 1

Layering through MSBs

SDNY-2002- An individual defendant laundered more than \$700,000 worth of drug proceeds for a money laundering group associated with Colombian narcotics traffickers. The defendant wired funds to bank accounts in Panama, Barbados, and Honduras. As part of the defendant's money laundering scheme, between November 1998 and June 2000, he made structured cash purchases of money orders totaling more than \$600,000 without ever causing a Currency Transaction Report (CTR) report to be filed. On more than 50 occasions, the defendant made multiple small purchases of postal money orders at various post office locations, as many as 11 on a single day, keeping them below the \$3,000 recordkeeping threshold. The defendant completed the money orders in his name, the name of his company, and the names of relatives and friends, and then deposited the money orders into his company's business bank account. The defendant also exchanged more than \$500,000 worth of what he understood was drug money for checks from various business accomplices, including numerous carpet dealers. This activity was determined to have been an intentional circumvention of federal reporting requirements.

³² For example, according to the Coopers study, at the time of that study, two money transmitters and two traveler's check issuers made up approximately 97 percent of their respective known markets for non-bank money services. Three enterprises made up approximately 88 percent of the \$100 billion in money orders sold annually (through approximately 146,000 locations). The retail foreign currency exchange sector was found by Coopers & Lybrand to be somewhat less concentrated, with the top two non-bank market participants accounting for 40 percent of a known market that accounts for \$10 billion. Check cashing is the least concentrated of the business sectors; the two largest non-bank check cashing businesses make up approximately 20 percent of the market, with a large number of competitors.

³³ Members of the second group may include, for example, a travel agency, courier service, convenience store, grocery or liquor store.

³⁴ It is not known how many unregistered MSBs exist that require registration. The 1997 Coopers Study estimate of 200,000 included all MSBs, and is not indicative of the number of MSBs requiring registration.

³⁵ More than one violation may be identified on a single SAR.

and gas stations were cited as the most common sites for money laundering, with travel agencies that offer MSB services also noted as an increasingly prominent conduit for the illicit transmission of money. Anecdotal reporting by law enforcement points to the use of MSBs in counterfeit check schemes and non-government charitable organizations (NGOs) utilizing MSBs to transfer proceeds internationally to support terrorist organizations and terrorist-related activities.

Several FBI field offices reported the laundering of millions of dollars derived from Internet extortion and fraud schemes through MSBs such as Western Union, PayPal, e-gold Limited, and other online payment systems.

Vulnerabilities particular to specific types of MSBs will be explored in the respective sub-chapters below.

Analysis of FinCEN data from October 1, 2002 through December 31, 2004 indicates that MSBs located in New York and California filed more MSB SAR forms than MSBs in any other state, followed by Arizona, Texas, Florida, Colorado, New Jersey, Massachusetts, Georgia, and Illinois. These numbers indicate a concentration of illicit financial activity in major, densely populated cities and along the Southwest border.

Law enforcement also identified geographic concentrations of MSB money laundering activity in highly-populated cities but did not identify California or the Southwest border as focal points for illicit MSB activity, despite the high volume of suspicious activity reported by MSBs in these regions to FinCEN.

With respect to destinations, most federal law enforcement agencies identified Mexico as the primary destination for suspicious funds sent through MSBs. Other prevalent destinations were Russia, Colombia, the Dominican Republic, and various locations in Central and South America. The majority of these investigations dealt with narcotics trafficking organizations. Investigations have also noted increased money laundering concerns among Middle Easterners in the United States operating MSBs and sending funds to Egypt, Sudan, and other locations in the Middle East.

As of December 31, 2001, all MSB principals (not individual agents) were required to register with FinCEN, listing the owner or controlling person. Each business that meets the definition of an MSB must register, except for the following:

- A business that is an MSB solely because it serves as an agent of another MSB;
- A business that is an MSB solely as an issuer, seller, or redeemer of stored value;
- The USPS and agencies of the United States, of any state, or of any political subdivision of any state; and
- A branch office of an MSB is not required to file its own registration form.

MSB registrations must be renewed every two years. Failure to register is punishable by a civil fine or criminal prosecution under 18 U.S.C. § 1960, which prohibits the operation of an unlicensed money transmitting business. For purposes of 18 U.S.C. § 1960, an unlicensed money transmitting business is a person who knowingly conducts, controls, manages, supervises, directs, or owns all or part of a money transmitting business, and who fails to register as required with FinCEN, or in

Table 3

MSB Suspicious Activity Reporting Ranking by States 10/1/02-12/31/04

Ranking	State	% of MSB SARs Filed*	% of US MSB SARs
#1	New York	17%	49%
#1	California	17%	
#2	Arizona	9%	25%
#3	Texas	8%	
#4	Florida	6%	
#5	Colorado	4%	
#6	New Jersey	4%	
#7	Massachusetts	3%	
#8	Georgia	3%	
#9	Illinois	3%	

*Percentages rounded to nearest whole number.



certain circumstances, operates without a required state license. MSBs which fail to register also may be liable for civil money penalties of up to \$5,000 for each day the violation continues and a criminal penalty of up to five years imprisonment.

All MSBs must establish AML programs, and obtain and verify customer identity and record information about the transaction, including beneficiary information if received, for funds transfers of more than \$3,000 regardless of whether the activity appears suspicious or not. They must also keep records regarding the cash purchase of money orders and traveler's checks between \$3,000 and \$10,000, and certain records regarding their currency exchange transactions. In addition, all MSBs are required to file reports of transaction in currency of more than \$10,000.

As of January 1, 2002 most MSBs are required to report suspicious activity. The SAR requirement does not apply to check cashers or to sellers and redeemers of stored-value. An MSB is required to file a SAR on a transaction or series of transactions conducted or attempted by, at, or through the MSB if both of the following occur:

- The transaction or series of transactions involves or aggregates funds or other assets of \$2,000 or more, and
- The MSB knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part) falls into one or more of the following categories:
 1. Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
 2. Is designed to evade any BSA regulation;
 3. Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the MSB knows of no reasonable explanation

for the transaction after examining the available facts, including the background and possible purpose of the transaction; or

4. Involves use of the MSB to facilitate criminal activity.

Despite the regulatory requirements, the majority of MSBs in the United States continue to operate without registering with FinCEN. Information obtained from SAR analysis indicates some lack of understanding by MSBs about registration requirements, especially among operators of small businesses that also provide MSB services. While some individuals made no attempt to register with FinCEN, others provided partial registration documentation. Other brokers, when given a thorough explanation of the registration process, were willing to comply with registration requirements. The relative novelty of the regulatory regime and the lack of familiarity by MSB operators about government and vice versa will continue to present challenges for both regulators and law enforcement.

IRRSB/SE has been delegated authority to examine MSBs for BSA compliance. A staff of several hundred IRS SB/SE full-time BSA examiners evaluates compliance with the reporting and record-keeping requirements of the BSA and Section 6050I of the Internal Revenue Code.

Monetary thresholds and the Sentencing Guidelines often impede the prosecution of 18 USC § 1960 violations. U.S. Attorney's Offices may be restricted by guidelines that force prosecutors to either decline or defer prosecutions of 18 USC § 1960 violations because the amount of money at issue is too small. Additionally, the relative newness of 18 USC § 1960 may limit its use by law enforcement and U.S. Attorney's Offices. Despite these factors, the Department of Justice has successfully prosecuted numerous 18 USC § 1960 violations, particularly in major metropolitan areas such as New York and Chicago.

The following sub-chapters will address the particular characteristics and vulnerabilities of Money Transmitters, Check Chasers, Currency Exchangers, Money Orders, and Stored Value Cards.

MONEY TRANSMITTERS

The financial services industry, law enforcement, and regulators interchangeably refer to non-bank money transmitters as money remitters, wire remitters, and wire transmitters, hereinafter money transmitters.³⁶ The sheer volume and accessibility of money transmitters makes them attractive vehicles to money launderers operating in nearly every part of the world. Western Union runs the largest non-bank money transmitter network, with more than 225,000 agent locations in 195 countries and territories worldwide.³⁷

As the overwhelming majority of wire transfers at MSBs are paid for with cash, money transmitters provide excellent camouflage for the initial introduction of the illicit proceeds into the financial system. Money transmitters offer inexpensive services, and often impose less rigorous AML programs and compliance than traditional financial institutions.

A funds transfer can generally be described as a series of steps, beginning with the originator's (customer's) instructions and including a payment message, which is used for the purpose of making payment to the beneficiary (receiving customer). There are a wide range of potential sources of funds for initiating a funds transfer, which include: cash, certified checks, cashier's checks, money orders, traveler's checks, account withdrawal, and credit and debit cards.

The vulnerabilities endemic to MSBs in general – discussed above – also apply to money transmitters. As with all industries subject to reporting thresholds, money launderers attempt to abuse money transmitters by structuring transactions below federal reporting thresholds. Owners or employees of registered money transmitters may help money launderers avoid reporting requirements by falsifying records to make it appear as though a large amount of laundered money was derived from a series of small transactions. Money transmitters

may also knowingly permit individuals to make frequent structured transactions using false names and telephone numbers for each transaction.

The rapid movement of funds between accounts in different jurisdictions increases the complexity of investigations. In addition, investigations become even more difficult to pursue if the identity of the originator is not clearly shown in an electronic payment message.

Money transmitters remain a particularly attractive vehicle for money laundering due to several inherent characteristics of the industry:

- Large money transmitters maintain agent offices in thousands of cities and scores of countries, allowing customers to move funds from nearly any location directly to any other location;
- Money transmitters provide for rapid service, transmitting funds instantly or in days;
- The sheer volume of legitimate cash transactions provides an excellent camouflage for money laundering activity in the placement stage;³⁸
- Money transmitter services are relatively inexpensive as compared with other means utilized by money launderers, often charging 10-20 percent per transmission; and
- Money transmitters increasingly provide online payment services and accept credit and debit cards. Although there are often identification safeguards in place – MSBs must verify identity with valid forms of identification and often utilize security features like password protection and online validation by third parties for signature verification – the lack of face-to-face interaction between the customer and the MSB limits the ability of MSBs to detect suspicious activity, as with other financial services provided through the Internet.

³⁶ Informal value transfer systems (IVTS), such as hawalas, are treated separately in Chapter 4.

³⁷ See "About Western Union." Accessed at: <http://www.westernunion.com/info/aboutUsIndex.asp?country=global>.

³⁸ The three stages of money laundering are: (1) Placement, in which illicit proceeds are introduced into the financial system; (2) Layering, in which the criminal attempts to separate the proceeds from the crime through a series of transactions; and (3) Integration, in which the illicit proceeds are made to look legitimate through investment in legal assets.

Unregistered money transmitters offer money launderers many of the same advantages as registered money transmitters, with the added benefit of additional anonymity:

- The failure to follow federal reporting requirements reduces transparency yet further;
- Unregistered money transmitters frequently maintain coded records which may be inscrutable to investigators; and
- Unregistered transmitters may not advertise and may operate from locations with other primary purposes, such as gas stations, grocery stores, and residences, making them more difficult to detect. These businesses will often use such cash-intensive retail businesses to justify large-scale bank deposits and transfers.

Ethnic immigrant communities are heavy users of money transmitter services, particularly to send money home to their native countries. Typically, members of these communities will use multiple services of an MSB, such as money transmission in conjunction with check cashing and/or currency exchange. DEA, ICE, FBI, FinCEN, and OCDETF have noted Middle Eastern, Asian, and Latin American – specifically Mexican – immigrant communities in major metropolitan areas as primary users of money transmitter services.

Frequently identified points of origin for money transmissions were New York, Los Angeles, Chicago, Dallas, Houston, Phoenix, Tucson, Seattle, and San Juan. Law enforcement reporting indicates that a large amount of illicit funds laundered through money transmission services are sent to the southwest border of the United

States. Roma, McAllen, Benita, Brownsville, Harlingen, Hidalgo, and Rio Grande City are the primary Texas border towns receiving wires, while Houston, and increasingly Dallas, are the primary cities receiving wires. The unusually large number of wires being received at the southwest border is particularly apparent in southern Arizona, where \$12 are received for every \$1 sent. As discussed below, this disparity may be accounted for in bulk cash movements south of the border. Some observed trends in predicate crimes by origin/destination are described in Table 4.

In the New York/New Jersey area, money transmittal businesses are extremely prevalent and witness a great deal of money laundering. Vulnerabilities particular to specific types of MSBs will be explored in the respective sub-chapters below. OCDETF identified the most prevalent area of suspicious activity as Jackson Heights, Queens, which purportedly contains the largest Colombian community outside of Colombia itself.

OCDETF also reports Colombian and Dominican drug trafficking organizations actively utilizing New England-based money transmitters to wire illicit drug proceeds to criminal recipients in Colombia and the Dominican Republic, despite some successful prosecutions in this arena.

Internationally, ICE notes that wires sent from the Los Angeles area were primarily destined for South/Central America, Asia, Europe, and the Middle East, while wires sent from the New York area were primarily destined for Colombia and the Dominican Republic.

Money transmissions received in southern Arizona and Texas are typically sent in amounts of less than \$3,000.

Table 4

Destination	Origin Points	Predominant Predicate Crime
Southern Arizona	California	Narcotics trafficking
Southwest Border	New York, New Jersey, North Carolina and Florida	Alien trafficking
Texas	New York, Florida, North Carolina, and New Jersey	Alien trafficking, narcotics trafficking to a lesser extent

When alien trafficking is the predicate crime, it is believed that this amount does not indicate structuring but rather the relatively small amounts involved in individual instances of alien trafficking. When the transactions are received at the border, however, they become structured as the same receiver must collect the transactions individually in order to keep them under the \$3,000 threshold.

From the southwest border, the funds are generally bulk shipped south. From Arizona, most of the money is smuggled across the border in passenger cars in amounts under \$100,000, with a small amount retained

In addition to the rules applicable to all MSBs, money transmitters are required to collect information regarding wire transfers involving \$3,000 or more and retain these records for five years. As of January 1, 2002, all money transmitters must maintain a list of agents and have it available for review. The list must include such information as the agent's name, depository institution, and the number of branches and subagents. A business acting solely as an agent of a money transmitter is not required to register with FinCEN. However, the agent must notify the money transmitter when it establishes subagents so that the transmitter may revise its agent list as required by FinCEN each January 1.

Table 5

	Received in Arizona*	Originated in Arizona*
GA	19.9	0.7
IL	25.7	0.7
NC	12.1	0.2
NJ	16.7	0.3
NY	31.6	1.1
PA	6.6	0.3
Total	112.6	3.4

*Millions of U.S. Dollars¹

at the border to cover the operational costs of the alien smuggling operation. In Texas, 60-70 percent of the funds are bulk shipped across the border.³⁹

After being bulk shipped across the border, the previously wired funds are generally returned to the United States. ICE reports that this is accomplished by wiring the money back to the United States, although various methods – some as simple as returning the funds via bulk cash shipment – can be used. When reentering the country, the illicit funds are documented, appear to be legitimate, and may then be used to meet the financial needs of the money launderers within the United States.

³⁹ Houston Money Laundering Initiative (HMLI).



CHECK CASHERS

Check cashers provide essential services for persons without bank accounts. Criminals can and do abuse these services, however, to launder illicit funds, often in conjunction with money transmitters and informal value transfer systems (IVTS). Not all check cashers perform the same services and thus not all check cashers pose the same vulnerabilities or levels of risk.

Money launderers use check-cashing businesses to launder funds via third-party checking. To do this, a money launderer may make daily visits to small businesses in order to purchase checks made out to that business by uninvolved third parties. By selling these checks to the launderer, the business benefits by receiving immediate cash, avoiding banking or check cashing fees, avoiding income taxes, and passing on the risk of bad checks to the launderer. The launderer pays for the checks using illicit cash, and can then redeem the checks without causing the filing of a Currency Transaction Report (CTR) by not taking payment in cash. Money launderers sometimes purchase check cashing businesses outright, in which case checks can be deposited directly into the launderer's bank account, also without a CTR being filed.

Check-cashing businesses engaged in money laundering via third party checks typically will only withdraw a portion of the sum of checks being deposited, making up the remainder with dirty cash. This activity may generate a SAR. However, banks and law enforcement agencies may not immediately recognize this activity as suspicious, as the check-cashing business may reasonably hold accounts at other institutions from which the cash is being withdrawn. Illicit check-cashers may also arouse suspicion by withdrawing bills in large denominations.

To avoid scrutiny, money launderers will frequently send endorsed third-party checks out of the country to be cashed or deposited. When these checks are cashed or deposited at foreign banks, the U.S. bank may take note during the clearing process and file a SAR. Third-party checks are also used to send value overseas, akin to money orders. Because these checks are physically lighter and occupy less space than their cash equivalents, it is easier for money launderers to bulk ship or mail

packages of these monetary instruments out of the country. For narcotics traffickers, shipping checks is also preferable to shipping currency because narcotics residues are less likely to adhere to paper checks than to currency, reducing the likelihood that police dogs will detect them.

Law enforcement has reported several examples of abuse in the check cashing industry. In one case, IRS-CI reported that numerous corporate checks stolen from the mail were eventually negotiated at a check casher. The FBI has witnessed an increase in money laundering through check cashing services and FBI field offices throughout the United States are observing large amounts of money flowing through structured deposits involving check cashing services. Drug trafficking organizations are noted as frequent users of this laundering method.

Others have observed these services used by undocumented immigrants sending money to Mexico and the Middle East. The lack of record-keeping requirements for check cashers hinders law enforcement efforts to identify the source of the suspect funds.

Check cashers, like most MSBs, must register with FinCEN. Although check cashers are required to file CTRs for cash transactions greater than \$10,000, they are not currently required to file SARS (although they may do so voluntarily).

Only 24 states currently have specific check cashing legislation or regulations. Check cashers are often required to be licensed but are subject to less state regulatory oversight than other money service businesses, like sellers of money orders or traveler's checks. This is due, in part, to a perception that check cashing poses a comparatively smaller risk to consumers. Likewise, net worth requirements are typically less stringent for check cashers. State banking authorities or other supervisory bodies also examine these businesses less frequently.

The exemption of check cashers from SAR reporting requirements may hinder law enforcement efforts to identify laundering through this channel.

CURRENCY EXCHANGERS

Currency exchangers, also referred to as currency dealers, money exchangers, *casas de cambio*, and bureaux de changes, provide conversion of bank notes of one country for that of another and may be abused by criminals in order to launder illicit funds, particularly during the placement stage of money laundering.

Although currency exchange, in and of itself, poses a less serious money laundering risk than the services provided by other MSBs, certain elements of the currency exchange sector, such as *casas de cambio*, play a major role in money laundering operations, particularly for narcotics organizations. Currency exchange is the MSB subject to the least state regulation, with fewer than ten states currently regulating this activity.

Currency exchange businesses are predominately located along shared borders, at international airports, and in large tourist areas. The services provided by currency exchange houses allow money launderers to exchange large quantities of small-denomination bills for large-denomination bills of the same or different currency. Thus exchanged, the bills can be more easily bulk shipped or deposited in bank accounts. Currency exchange houses are also used to provide additional cloaking in a funds transfer chain. An exchange house may, for example, accept cash from a customer which it then deposits in its own account at a commercial banking institution. The origin or source of the funds would be disguised because the bank will attribute ownership to the currency exchange business.

Currency exchange businesses also regularly offer money transmission services, compounding the threat by introducing the money transmitter risks discussed above.

Casas de cambio are currency exchange houses specializing in Latin American currencies and transactions. In the United States, these businesses are concentrated along the southwest border, with over 1,000 *casas de cambio* located along the border from California to Texas. These currency exchangers generally offer

other MSB services, and often exist in combination with retail businesses such as gas stations and travel agencies. These businesses are generally unregistered and non-compliant with MSB SAR reporting requirements, and are suspected of being the primary non-bank money laundering mechanism in the southwest border area. Typical *casas de cambio* can launder as much as \$5 million per month, primarily on behalf of drug traffickers. *Casas de cambio* are often run from mobile or temporary locations such as pickup trucks, trailers, sheds, and even telephone booths so that operations may be quickly relocated to avoid law enforcement. U.S.-based *casas de cambio* typically maintain close relationships with their Mexican counterparts in order to facilitate transactions such as funds transfers.

Some *casas de cambio* exist for the primary purpose of facilitating money laundering activities. Although *casas de cambio* are required to file Reports of International Transportation of Currency or Monetary Instruments (CMIRs) and Currency Transaction Reports (CTRs), they will commonly move money on behalf of many clients in a bulk transaction conducted under the name of the exchange house, thus cloaking the identity of the true originators. Any SARs filed in these cases by banks or other intermediaries will report the *casa de cambio* as the violator, often leading to an investigative dead end. Seized documents in raids conducted by the Venezuelan *Guardia Nacional* on *casas de cambio* and businesses in the Venezuelan state of Tachiria revealed that a number of *casas de cambio* were laundering drug proceeds originating from the United States through Venezuela to Colombia. Venezuela was being used to avoid Colombia's relatively high tariff on U.S. currency. It was later discovered that numerous *casas de cambio* involved in the money laundering process had U.S. dollar checking accounts through correspondent accounts held by major banks in Venezuela.

Currency exchangers are subject to general MSB regulations and are required to file SARs. In a sampling of 44 SARs filed by Currency Exchangers, FinCEN found that structuring was the most reported violation (29%), followed by altering the transaction to avoid reporting (20%), and two or more individuals conducting coordinated transactions (20%). The suspects reported in these SARs resided or transacted in Illinois and southwest border states, as well as Mexico, Canada,

Colombia, and Spain.

The amounts of violations reported in these SARs ranged from \$0-\$25 million. The violation ranges were as follows:

the filer, the suspect ceased doing business with this MSB; and

- Unusually large exchanges of currency. One SAR reported a suspect in connection with the exchange

Table 6

Amount	Number of SARs	Percentage of Total Filings
\$0-\$999	5	11%
\$1,000-\$9,999	31	70%
\$10,000-\$99,999	7	9%
\$100,000-\$25 million	1	--

With regard to the 13 SARs reporting violations involving money exchangers exclusively, the violation amounts ranged from \$425 through \$41,983, and structuring was the most reported violation, appearing in 7 of the 13 SARs (54%).

A review of money exchange SAR narratives reveals the following recurring patterns:

- The exchange of foreign currency for U.S. dollars (USD);
- Submitting U.S. currency in specific denominations such as \$1's, \$5's, and \$10's;
- Odor on the currency;
- Two or more individuals working together to exchange pesos in an amount under the reporting requirement;
- Regular exchanges of similar amounts of currency. A California MSB reported a customer for regularly exchanging USD into pesos. Amounts ranging from \$300-\$800 USD were exchanged daily. The bills were all in small denominations under \$1,000. At one point, the customer transacted over \$1,000, prompting the exchange house to ask for ID and the purpose of the transactions. The suspect stated that she had a grocery store in California and bought supplies in Mexico. After she was questioned by

of 100,000 pesos for USD. The suspect balked when asked for ID, but did supply it. He later returned with a woman he identified as his client, who also exchanged 100,000 pesos for USD. A Texas MSB reported that, in one month, a Mexican suspect exchanged nearly \$42,000. Another SAR reported a Spanish suspect who visited two Miami International Airport currency exchanger locations in three days and exchanged Euros for USD in the total amount of \$21,290.

MONEY ORDERS

Money orders are a highly versatile vehicle for money laundering, useful for a number of financial crimes ranging from smuggling narcotics trafficking proceeds to depositing illicit proceeds from alien smuggling and corporate fraud into bank accounts.

Money orders are used by approximately 30 million people annually to conduct business such as paying bills and sending money back to families in foreign countries. It is estimated that over 830 million money orders in excess of \$100 billion are issued annually. The money order industry is small compared to that of other MSBs and easier to assess. Eighty percent of all money orders are issued by the USPS, Western Union, and Traveler's Express/MoneyGram. The remaining 20 percent are issued by smaller, regional companies scattered throughout the United States.

As a money laundering vehicle, money orders have several attractions. First, money orders can be issued in high-dollar denominations and are much less bulky than cash. Money orders are also replaceable if lost.

Anonymity is another major attraction. Money orders are issued anonymously for amounts under \$3,000. Most money order sellers/issuers do not have any relationship with their customers and very little, if any, information is required to purchase a money order. Without originating information, it can be impossible for law enforcement to detect patterns of unlawful activity by an individual or group, or to track suspicious transactions to their source or ultimate recipient.

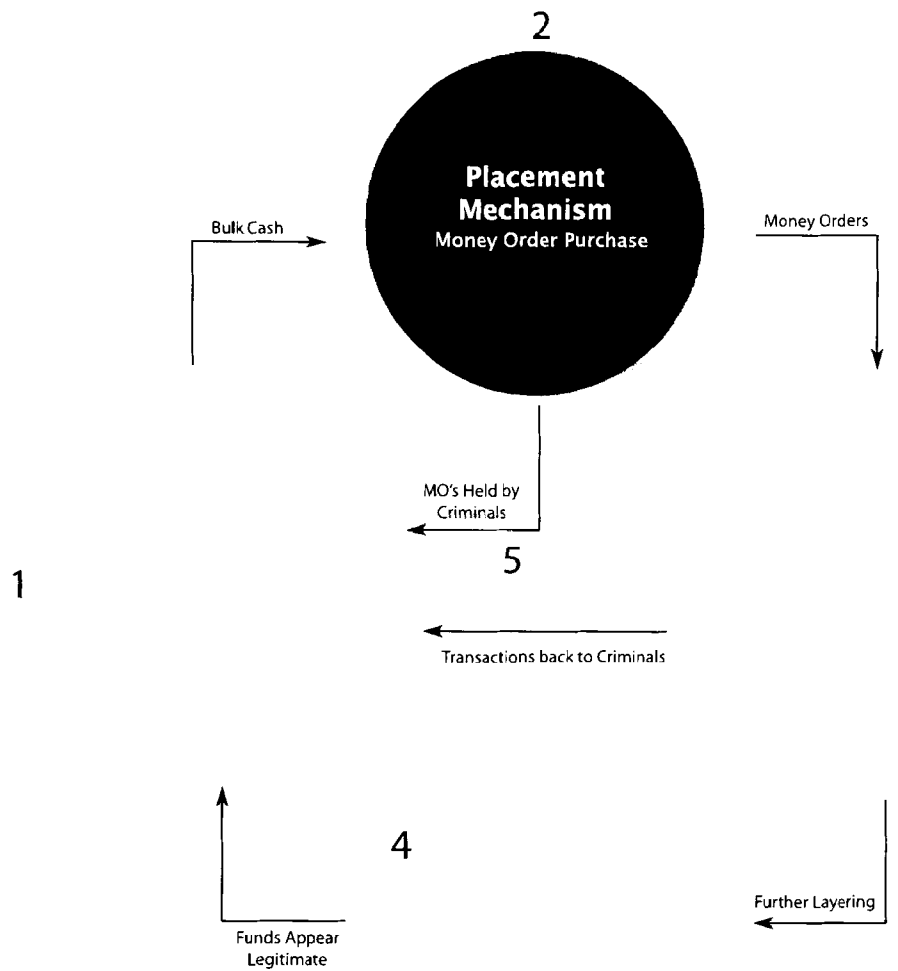
USPIS, FBI, DEA, and ICE investigations have all repeatedly noted dirty cash being converted to money orders to hide its true source and/or to shrink the physical size of the contraband in order to facilitate smuggling it out of the country. Commonly cited international

destinations include Lebanon, the Palestinian territories, United Arab Emirates, Saudi Arabia, and Central and South America.

Financial hubs that see the greatest volume of money order activity are New York/New Jersey, Los Angeles, El Paso, Dallas, Miami, Boston, and San Francisco. DEA, USPIS, ICE, and the New York/New Jersey High Risk Money Laundering and Related Financial Crimes Areas (HIFCA)⁴⁰ all report significant money laundering activity with money orders in these regions. OCDETF has consistently reported that approximately 20 percent of its newly-initiated money laundering investigations contains a money order component. Law enforcement, primarily ICE and DEA, and the regulatory community have seen a steady stream of money order use by launderers moving bulk cash from narcotics transactions to Mexico and other regions of Latin America. DEA and ICE report an area of increasing concern is the use of Mexican *casas de cambio* used to transport proceeds through money orders into Mexico. The vulnerabilities presented by money orders and the relative lack of regulatory oversight of *casas de cambio* in many foreign countries create an attractive environment for individuals seeking to launder illicit proceeds.

⁴⁰ HIFCAs were conceived in the Money Laundering and Financial Crimes Strategy Act of 1998 as a means of concentrating law enforcement efforts at the federal, state, and local levels in high intensity money laundering zones. HIFCAs may be defined geographically or they can also be created to address money laundering in an industry sector, a financial institution, or group of financial institutions.

The illustration below presents a typical cycle of money laundering through the use of money orders.⁴¹



money orders. The great majority of these money order-related SARs (93%) were filed by USPS. USPS reported approximately \$296.9 million in suspicious money order activity equaling approximately .01% of the total face value issued in 2003. In 2004, USPS reported \$408.5 million in suspicious money order activity, equaling approximately .014% of the total face value issued. The increase from 2003 to 2004 by .005% is believed to reflect USPS's lowering of its "back-end" threshold for detecting suspicious activity from \$10,000 to \$5,000.

3

Trends identified in the SARs filed include the following:

- The purchase of multiple, structured money orders on the same day or within a short period of time; on many SARs it was noted that when the customers were informed of the reporting threshold, they changed their purchase to lower amounts;
- Money order deposits to the same bank account composed of multiple, sequentially numbered money orders;
- Customers lacking proper identification, or providing false identification, leading some filers to conclude that these customers could be illegal aliens;
- Structured purchases frequently followed by the deposit of the money orders into the same bank account;

Regulatory requirements for MSBs that issue money orders are the same as those for MSBs in general, as set out above. In addition, many money order businesses impose their own lower dollar thresholds, such as not selling more than \$2,000 in money orders to a customer in a given day, which obviate the need for CTR reporting.

Of the total SARs filed for MSBs from October 1, 2002 through December 31, 2004, 32 percent involved

- Individuals coming into the Post Office together, but separating inside to make the purchases from different tellers because the combined total of the money orders purchased exceeded the reporting threshold; and
- Money order purchases being paid for with currency in specific denominations, sometimes bundled into stacks, indicating organized-crime involvement.

Anti-money laundering training is required of money order businesses, but this training can be quite cursory. Common vendors of money orders, such as small convenience stores, may neither understand nor value BSA compliance. When AML training is offered, it is typically thin, such as requiring employees to read a brief pamphlet. The fact that the workforce at these businesses is frequently comprised of part-time, younger, and less-educated employees with an extraordinarily high turnover rate, further complicates the training effort.

There is also an accountability gap. All money order issuers, aside from the USPS, rely to a large extent on licensed agents, rather than employees, to sell their instruments. The parent firms have a responsibility to review activity across their agent network but are not required to review individual SARs. Indeed, some firms specifically discourage their agents from submitting SARs to the parent firm.⁴²

Western Union and MoneyGram combined – which represent over 50% of the money orders issued in the United States – represented only 1 percent of all SARs filed from October 1, 2002 through December 31, 2004, where money laundering was listed as the Category of Violation and where money orders was identified as the Financial Service(s) Involved. By comparison, USPS – which represents one-quarter of all money orders issued in the United States – represented 93 percent of such SAR activity.

⁴² See, e.g., Travelers Express “Anti-Money Laundering Compliance Guide,” July 2002. Accessed at: <http://www.moneygram.com/forms/agentguide.pdf>.

STORED VALUE CARDS

Stored value cards (sometimes referred to as prepaid cards) are an emerging cash alternative for both legitimate consumers and money launderers alike. The term “stored value cards” can cover a variety of uses and technologies. Some cards have embedded data processing chips, some have a magnetic stripe, and some cards (e.g. prepaid phone service cards) just have an access number or password printed on them (the card itself cannot access or transfer cash).

Stored value cards can be characterized as operating within either an “open” or “closed” system (See Table 7). Open system cards can be used to connect to global debit and automated teller machine (ATM) networks. The cards can be used for purchases at any merchant or to access cash at any ATM that connects to the global payment networks.⁴³ Such open system card programs generally do not require a bank account or face-to-face verification of cardholder identity. Funds can be prepaid by one person, with someone else in another country accessing the cash via ATM. Open system stored value cards typically may be reloaded, allowing the cardholder to add value.

Closed system⁴⁴ cards are limited in that they can only be used to buy goods or services from the merchant issuing the card or a select group of merchants or service providers that participate in a network that is limited geographically or otherwise. Examples of closed system cards include retail gift cards, mall cards, and mass transit

system cards, as well as the multipurpose cards used on overseas U.S. military bases and on college campuses. These cards may be limited to the initial value posted to the card or may allow the card holder to add value.⁴⁵

Stored value cards offer individuals without bank accounts an alternative to cash and money orders. Target markets include teenagers, the unbanked, adults unable to qualify for a credit card, and immigrants sending cash to family outside the country. The unbanked in the United States comprise an estimated 10 million households and 75 million individuals.⁴⁶ A growing segment of the stored value card market consists of businesses and government agencies using plastic cards to replace paper vouchers, checks, and cash for per diems, insurance and health benefit payments, and even payroll. Issuers see the greatest fee potential, however, among the unbanked, who, by using the cards in place of cash and money orders, generate transaction fees with every purchase and every cash withdrawal.⁴⁷

Stored value cards provide a compact, easily transportable, and potentially anonymous way to store and access cash value. Open system cards lower the barrier to the U.S. payment system, allowing individuals without a bank account to access illicit cash via ATMs globally. Closed system cards, primarily store gift cards, present more limited opportunities and a correspondingly lower risk as a means to move monetary value out of the country. Yet federal law enforcement agencies

⁴³ International networks on which open system cards can be used include Visa’s Plus (ATM) and Interlink (point-of-sale) networks and MasterCard’s Cirrus (ATM) and Maestro (point-of-sale) networks.

⁴⁴ Smart cards are another version of a closed system card, but are not widely used in the U.S. In some countries, smart cards have an embedded data processing chip that carries bank-issued electronic money. The cards can transfer money directly to participating merchants without the transaction going through an intermediary. The merchant or service provider’s bank redeems the stored electronic payments as conventional cash from the bank that issued the e-money. In some countries, smart cards have achieved modest acceptance for domestic small-value purchases. Smart cards are also used in countries with inefficient telecommunications, so that merchants do not need to query a central database for transaction authorizations.

⁴⁵ Some retailers do offer redemption of gift cards for cash, but they do not openly advertise that this is an option. In this scenario, the gift cards can be used to launder funds and hide the paper trail of not only the source of the funds used to purchase the cards, but also where the funds go if the cards are redeemed for cash.

⁴⁶ Hillebrand, Gail, Payment Mechanism: New Products, New Problems, Consumers Union, presentation delivered at the Federal Reserve Bank of Chicago, May 29, 2003. Accessed at: http://www.chicagofed.org/news_and_conferences/conferences_and_events/files/2003_payments_conference_gail_hillebrand_presentation.pdf.

⁴⁷ Issuers have triggered a backlash by going beyond transaction fees, adding charges for checking a balance, adding cash, or even doing nothing (“inactivity” fees), drawing criticism from consumer rights advocates and attorneys general. For example, California, Washington, and New Hampshire have passed laws curtailing prepaid card fees and practices. Connecticut, Massachusetts, New Hampshire, and New York have filed lawsuits against the Visa-branded Simon Malls card specifically because of fees.

have reported both categories of stored value cards are used as alternatives to smuggling physical cash.

Stored value card programs often accept applications online, via fax, or through local check cashing outlets, convenience stores, and other retailers. Programs that lack customer identification procedures and systems to monitor transactions for suspicious activity present significant money laundering vulnerabilities, particularly if there are liberal limits or no limits on the amount of cash that can be prepaid into the card account or accessed through ATMs. Offshore banks also offer stored value cards with cash access through ATMs internationally. Further, programs designed to facilitate cross-border remittance payments often allow multiple cards to be issued per account so that friends and family in the receiving country can use the cards to access cash and make purchases. These programs can also be used to launder money if effective AML policies, procedures, and controls are not in place.

Law enforcement agents on the El Dorado Task Force⁴⁸ in New York found they could use false identification to obtain prepaid cards and even have the cards sent to a U.S. Post Office box. Secret Service investigations have found that not only do some prepaid card applicants use false identification; they fund their initial deposits with stolen credit cards and money from other illicit sources.

DEA, ICE, and IRS-CI have all found prepaid cards used in conjunction with bulk cash smuggling. Drug dealers load cash onto prepaid cards and send the cards to their drug suppliers outside the country. The suppliers then use the cards to withdraw money from a local ATM.⁴⁹

Phone cards and other “closed” system prepaid cards also present opportunities for money laundering. The cards can be purchased for cash and transferred from one person to another domestically or internationally and eventually resold. Closed system cards are not currently subject to CMIR reporting when moved across U.S. borders.⁵⁰ ICE sees the potential for a variation on the Black Market Peso Exchange (BMPE)⁵¹ with phone cards exchanged for drug money. Also, prepaid cards for wireless and long-distance service are a cash-intensive business, offering an opportunity to integrate dirty money. Distributors of prepaid phone cards can generate more than \$100 million in cash annually.

A stored value card used in an ATM to access cash from a prepaid account operates the same way as a debit card accessing a bank account via ATM, but there can be a substantial difference in how the two cards are issued and the accounts managed. Banks and other depository financial institutions are obligated to have a customer identification program (CIP) and to report large or suspicious transactions (SARs). “Issuers, sellers, and redeemers of stored value” are classed as an MSB under the relevant regulations⁵² and are required to have an AML program but are not required to file SARs⁵³ or to register with FinCEN.⁵⁴

Although open system stored value cards use the same payment networks as some bank-issued debit cards (e.g. Visa’s Plus and Interlink, and MasterCard’s Cirrus and Maestro), stored value cardholders generally are not

⁴⁸ Created in 1992 to target money laundering in New York, the El Dorado Task Force became one of the nation’s most successful money laundering task forces. It is led by ICE and includes representatives from 29 federal, state, and local agencies.

⁴⁹ Even prepaid cards for long distance and wireless services are proving to be money laundering tools as the wholesale distribution system for these cards is cash-intensive, offering cover for money laundering.

⁵⁰ A Report of International Transportation of Currency or Monetary Instruments (CMIR) must be filed by each person who physically transports, mails, or ships, or causes to be physically transported, mailed, or shipped currency or other monetary instruments in an aggregate amount exceeding \$10,000 at one time from the United States to any place outside the United States or into the United States from any place outside the United States (FinCEN Form 105).

⁵¹ The BMPE involves drug suppliers in Colombia working with a currency broker. Rather than bringing their illicit dollars from the U.S. back to Colombia, the drug suppliers turn the cash over to a currency broker who can provide pesos in Colombia. The broker keeps the dollars in the U.S., selling them to Colombian importers who need the foreign currency to purchase goods from U.S. suppliers. The importers pay for the foreign currency with the pesos in Colombia that ultimately go to the drug suppliers.

⁵² See 31 CFR. §103.11(uu)(3) and (4).

⁵³ See 31 CFR. §§103.120 and 103.20(a)(5).

⁵⁴ See 31 CFR §103.41(a)(1).

obligated to have a bank account. A common model for stored value card programs is for a firm independent of the bank to process all cardholder transactions through a "pooled" bank account held in the name of the firm managing the card program. In this arrangement, the bank may have no direct contact with the individual cardholders. Under current regulations, when a stored value card firm uses a "pooled" account maintained in its name for cardholder transactions, banks are required only to conduct customer due diligence and customer identification procedures on the card management firm and not the individual cardholders.⁵⁵

MasterCard International and Visa USA have suggested AML guidelines for card issuers including account limits and requirements to verify identification. But web sites for stored value card programs that promote cardholder anonymity and flaunt a lack of AML policies suggest that this guidance may not be consistently enforced. Finally, a byproduct of the global market for and use of stored value products is that domestic action alone will not adequately address the vulnerability presented by these products. Issuers outside of the United States generally are not subject to the BSA,⁵⁶ yet the cards they issue may be used in the United States.

⁵⁵ See Deposit Insurance Coverage; Stored Value Cards and Other Nontraditional Access Mechanisms, Notice Of Proposed Rulemaking Federal Register 70:151 (8 August 2005): 455710-45581.

⁵⁶ Bank Secrecy Act, Titles I and II of Pub. L. 91-508, as amended, codified at 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959, and 31 U.S.C. §§ 5311-5332.

Table 7

Card Programs	Characteristics	Target Market	Possible Issuer Benefit	Potential Threat	Examples
Gift cards and prepaid phone services (Single service provider)	Store- or brand-specific (No payment network branding) Cards often sold in pre-set denominations/Merchant collects full value up-front	High frequency customers	Float ⁵⁷ , increased sales	BMPE-style ML ⁵⁸ : exchanging cash for cards/Use as alternative currency/Distribution method is cash intensive creating ML threat	Retailer-specific and Phone service cards
Gift cards: Multiple Merchants	Multi-merchant gift card: can be used for purchases only (no ATM)/Can be payment network branded	Gift givers	Float, sales, and transaction fees ⁵⁹	Money laundering through bulk card acquisition and resale	Mall card
Payroll cards	Creates account to facilitate direct deposit/ Cards can be used at ATM & POS ⁶⁰	Unbanked workers who are being paid by cash or check	Fee income (lower cost to employer)	Fraudulent businesses could use to pay terrorists or launder money	Various
Remittance cards	Cards are issued for friends & family to use at cross-border ATM & POS	Individuals who send cross-border remittances	Fee income	Provides anonymous cross-border access to funds for purchases or cash	Various
General use cash cards	Debit card good at ATM & POS to access pre-funded account	Unbanked, teens, & those unable to qualify for credit card	Fee income	Provides anonymous cross-border access to funds for purchases or cash	Various
Function-specific cards	Replaces paper money, tickets, and forms for a variety of functions	Businesses & government agencies processing high volume of cash, checks or vouchers	Lower cost processing	None apparent	Transit systems/ Health savings accounts/ Govt. benefit programs

⁵⁷ Merchant earns interest on idle card funds.

⁵⁸ Black Market Peso Exchange-type money laundering.

⁵⁹ Purchases with bank cards generate transaction fees for the issuing bank.

⁶⁰ Point-of-sale.

ONLINE PAYMENT SYSTEMS

New and innovative online payment services are emerging globally in response to market demand from individuals and online merchants. Individuals, some of whom may not have a bank account or are unable to qualify for a credit card, are looking to online payment services to enable online shopping, electronic bill payment, and person-to-person funds transfers. And some online merchants are demonstrating a willingness to accept new electronic methods of payment that are less expensive than credit cards. These payment services function as online payment systems, accepting funds in a variety of ways for the purpose of transferring payment either to a merchant or an individual.

Individuals wanting to shop online or participate in an online auction can use an existing bank account, credit card, wire transfer, money order, and even cash to fund an account with an online intermediary that will facilitate the payment. Some online payment services exist to facilitate transactions for online gambling and adult content sites that U.S.-based money transmitters typically will not service.⁶¹ U.S. citizens can access payment services online that are based outside of the United States and transfer funds either electronically or by mail.

Online merchants, particularly those in sectors with high "chargeback" rates, are generating demand for new payment methods.⁶² These markets embrace online payment systems that set their own clearing and settlement terms

absent any consumer protection or financial regulation. Typically, transactions through these service providers are considered final with no recourse for individuals who believe they have been defrauded. The consequence, according to federal law enforcement agencies, is that these systems have become favorite payment mechanisms for online perpetrators of fraudulent investment schemes and other illegal activity.

Some online payment services defy conventional business models. "Digital currency" dealers, for example, use precious metals (gold, palladium, platinum, and silver) as the store of value for online transactions and split the transaction process between two business entities: the digital currency exchange service and the digital currency dealer. Despite the appropriation of the term "digital currency" to describe the use of precious metals for online payments, digital currency remains one of many common phrases with "digital," or "cyber" or "e-," used to refer to any electronic payment initiated online.⁶³

The systems work as follows: A person wanting to use gold for an online purchase would first open a gold account with a digital currency dealer and then fund the account through an exchange service. Each exchange service sets its own terms, so that while some may only accept transfers from bank or credit card accounts, others will accept cash and money orders.⁶⁴ Similarly, each exchange service offers different options for receiving funds. The result is that some service providers pose a greater risk for money laundering.

The oldest and best known of the digital currency services is e-gold Ltd., licensed in Nevis, with almost 2

⁶¹ In 2002, PayPal, perhaps the largest and best-known online payment system (339.9 million payments worth \$18.9 billion in 2004), stopped providing payment services for online gambling and adult content sites. PayPal, was launched in 1998, and today has 63 million member accounts in 45 countries. In addition to facilitating transactions for sites PayPal no longer services, emerging online payment systems also are targeting countries in which PayPal does not operate. PayPal is a division of e-Bay, a publicly-held, U.S.-based corporation, and is licensed in the jurisdictions where it permits customers to send and/or receive money. (Source: <http://www.paypal.com>) PayPal has also registered with FinCEN as an MSB.

⁶² When a customer using a credit card disputes a charge, the customer is said to "charge back" the transaction. Managing charge backs is costly to merchants who can be fined by their bank for frequent disputes or required to pay higher transaction fees. Online gambling and adult content web sites are among industries prone to chargebacks and are charged higher credit card fees than brick and mortar businesses.

⁶³ The use of the term "currency" in this context is not strictly correct. Currency is something monetized by a monetizing authority, generally central banks. Rather than being used as currency, these precious metals are used as a part of a barter exchange (one party agrees to exchange a quantity of gold for various goods or services).

⁶⁴ In addition to other funding options, a California-based digital currency exchanger accepts cash delivered by courier. Another service provider based in Panama also accepts cash, but advises: "We have a limit of \$2,500.99 per day, per bank for cash deposits. For bigger amounts please send wires or postal money orders."



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Treasury Economic Update 5.4.07

"We see hopeful signs that growth will pick up through the year; business investment looks set to rebound, consumer spending is sustaining growth and strong global activity should propel exports going forward."

REPORTS

- Treasury Economic Update 5.4.07



U.S. ECONOMIC STRENGTH

TREASURY ECONOMIC UPDATE 5.4.07

"We see hopeful signs that growth will pick up through the year; business investment looks set to rebound, consumer spending is sustaining growth and strong global activity should propel exports going forward."

Assistant Secretary Phillip Swagel, May 4, 2007

Job Creation Continues:

Job Growth: 88,000 new jobs were gained in April and nearly 2 million new jobs have been created over the past 12 months. The United States has added 7.9 million jobs since August 2003 – more new jobs than all the other major industrialized countries combined. Our economy has seen job gains for 44 straight months. Employment has increased in 47 states within the past year. *(Last updated: May 4, 2007)*

Low Unemployment: The unemployment rate of 4.5 percent is among the lowest reading in six years. Unemployment rates have decreased or held steady in 36 states and the District of Columbia over the past year. *(Last updated: May 4, 2007)*

The U.S. Economy is in Transition to a Sustainable Growth Path:

Economic Growth: Real GDP growth was 1.3 percent in the first quarter of 2007, and 2.1 percent over the past 4 quarters. *(Last updated: April 27, 2007)*

Household Spending: Consumer spending—up 3.8 percent in Q1—remains strong and is expected to provide a solid foundation for faster economic activity in the rest of 2007. *(Last updated: April 27, 2007)*

Business Investment: Capital investment turned up in the 1st quarter, boosted by outlays for commercial structures and equipment and software. *(Last updated: April 27, 2007)*

Tax Revenues: Tax receipts rose 11.8 percent in fiscal year 2006 (FY06) on top of FY05's 14.6 percent increase. Receipts have grown another 8 percent so far in FY07. *(Last updated: April 11, 2007)*

Steady Productivity: Labor productivity has grown at an annual rate of 2.8 percent since the business cycle peak in 2001Q1. *(Last updated: May 3, 2007)*

Americans are Keeping More of Their Hard-Earned Money:

Real Wages Increased 1.3 percent Over the Past 12 Months (ending in March). This translates into an additional \$450 above inflation for the average full-time production worker.

Real After-Tax Income Per Person has Risen 10 percent - 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.

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May 4, 2007
HP-389

Notice on Press Credentials for SED

Members of the media seeking press credentials for the second Cabinet level meeting of the U.S. – China Strategic Economic Dialogue (SED) must complete and submit the attached form and a digital photo to the Treasury Department's Office of Public Affairs at press@do.treas.gov or fax to (202) 622-1999 no later than Friday, May 11, 2007. Incomplete applications or applications submitted after this date will not be considered for credentials.

The second session of the U.S. – China SED is scheduled to take place in Washington, DC on May 22 – 24, 2007. A schedule of open press events will be released in the coming weeks.

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- SED PRESS REG FORM

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U.S. - China Strategic Economic Dialogue II

May 2007

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May 4, 2007
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Report Highlights OFAC's Success in Combating Narcotics Traffickers

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today released the *Impact Report on Economic Sanctions Against Colombian Drug Cartels*, which reviews OFAC's highly effective efforts to expose and isolate significant Colombian narcotics traffickers and their associates and to disrupt and dismantle their business empires.

"Since its inception in 1995, the Specially Designated Narcotics Traffickers (SDNT) program has been extremely successful in disrupting the financial operations of Colombian drug lords and stripping the cartels of their ill-gotten gains," said OFAC Director Adam J. Szubin.

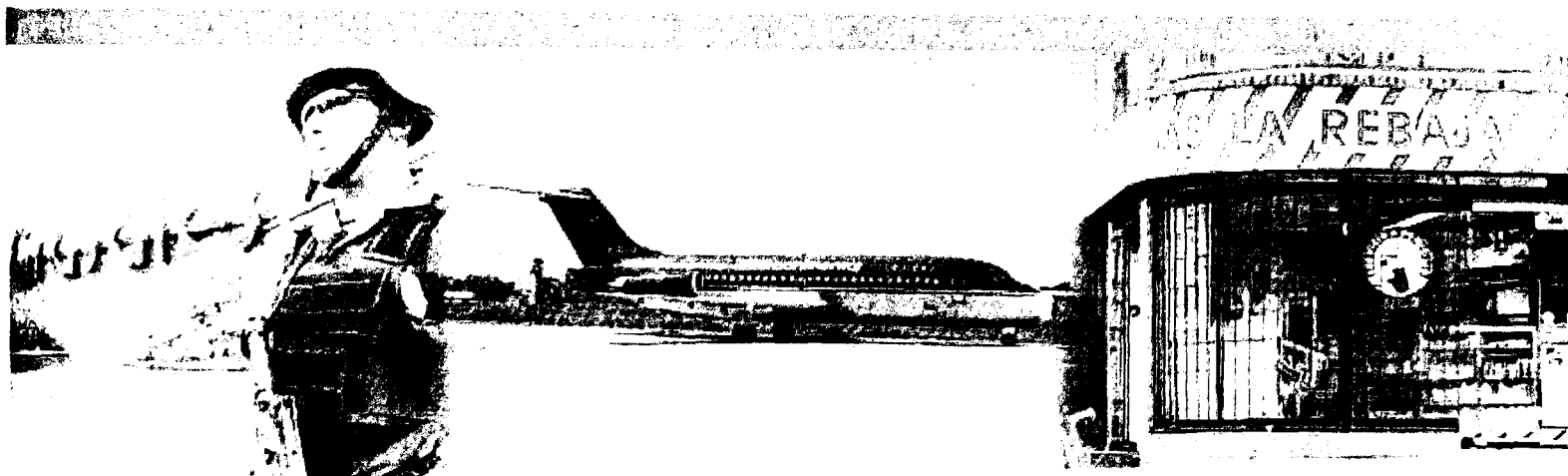
The *Impact Report* details the illicit activities of each of the 22 Colombian drug cartel principals and organizations that have been targeted by OFAC. The report also focuses on specific highlights of the SDNT program, including the historic September 2006 plea agreement between the United States Government and the leaders of Colombia's infamous Cali drug cartel, Miguel and Gilberto Rodriguez Orejuela. This sanctions program was established by Executive Order 12978.

"We believe the report will be valuable to the Congress and law enforcement agencies, both domestic and abroad. The report will also inform foreign governments, fostering closer coordination in fighting the scourge of narcotics trafficking," Szubin continued.

The *Impact Report on Economic Sanctions Against Colombian Drug Cartels*, as well as additional information about the SDNT program, can be accessed through the following link:

http://www.treas.gov/offices/enforcement/ofac/reports/narco_impact_report_05042007.pdf.

IMPACT REPORT



ECONOMIC SANCTIONS AGAINST
COLOMBIAN DRUG CARTELS



OFFICE OF FOREIGN ASSETS CONTROL

Economic Sanctions Against
COLOMBIAN DRUG CARTELS



Office of Foreign Assets Control
U.S. Department of the Treasury

March 2007
www.treas.gov/ofac



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

**STATEMENT FROM THE DIRECTOR OF THE
OFFICE OF FOREIGN ASSETS CONTROL**

Treasury's Office of Foreign Assets Control ("OFAC") integrates regulatory, national security, investigative, enforcement, and intelligence elements towards a single goal: effective implementation of economic sanctions programs against foreign threats and adversaries. OFAC currently administers and enforces more than 30 economic sanctions programs pursuant to Presidential and Congressional mandates,¹ targeting select foreign countries and regimes, terrorist organizations, proliferators of weapons of mass destruction, and narcotics traffickers. OFAC acts under general Presidential wartime and national emergency powers, as well as specific legislation, to prohibit transactions and freeze (or "block") assets within the United States or in possession or control of U.S. persons, including their foreign branches. These programs are administered in conjunction with diplomatic, law enforcement and occasionally military action. Since 1995, the Executive Branch has developed an array of "targeted" sanctions programs that focus on drug cartels and traffickers, international terrorist groups, proliferators of weapons of mass destruction, members of hostile regimes, and other individuals and groups whose activities threaten U.S. interests.

Narcotics traffickers operating on a global scale require an extensive support network, including procurement, logistics, transportation, communications, security, money laundering, and other facilitation. Disguising the sometimes vast profits derived from major drug operations requires the purchase of ostensibly legitimate enterprises capable of handling business on an international scale. These illicitly funded "corporate empires" can be extensive, complex, and undermine the integrity of financial systems. They are also one of the drug cartels' greatest vulnerabilities.

To combat the threats of violence, corruption, and harm posed by narcotics traffickers and their networks, President Clinton signed Executive Order 12978 in October 1995, declaring a national emergency with respect to significant foreign narcotics traffickers centered in Colombia.

The impact of these sanctions has been significant and, at times, dramatic. When OFAC designates an individual or entity, any assets within the United States or the possession or control of a U.S. person anywhere in the world, must be frozen. Trade with or through the United States is cut off. Moreover, many non-U.S. businesses and banks have voluntarily severed all ties with individuals and entities that OFAC has listed. As a result, designated persons may lose access to their bank accounts outside the United States, disrupting their operations and freedom of access. Finally, in many cases, Colombian authorities have taken law enforcement actions against designated companies or properties after OFAC listed them. Collectively, these actions have

disrupted more than \$1 billion worth of assets—in blockings, seizures, forfeitures, and the failure of enterprises—and economically isolated the individuals who own and manage the enterprises. The Director of the Office of National Drug Control Policy (“ONDCP”), in fact, stated that OFAC’s efforts have resulted in “the forfeiture of billions of dollars worth of drug-related assets.”

This report reviews the SDNT program’s achievements over the past 11 years, as it has targeted the leaders of Colombia’s Cali, North Valle, and North Coast drug cartels. It is our hope that the report will provide a useful window into the history and achievements of this program, as well as lessons for refining sanctions targeting and implementation in the future in this and other programs.

Adam J. Szubin
Director
Office of Foreign Assets Control

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a.k.a.	Also known as
AUC	United Self Defense Forces of Colombia (<i>Autodefensas Unidas de Colombia</i>)
CFR	Code of Federal Regulations
DEA	Drug Enforcement Administration
E.O.	Executive Order
f.k.a.	Formerly known as
FBI	Federal Bureau of Investigation
FNK	Foreign Narcotics Kingpin
ICE	U.S. Immigration and Customs Enforcement
IEEPA	International Emergency Economic Powers Act
n.k.a.	Now known as
OFAC	Office of Foreign Assets Control
ONDCP	Office of National Drug Control Policy
RICO	Racketeer Influenced and Corrupt Organization Act
SDGT	Specially Designated Global Terrorist
SDN	Specially Designated Nationals
SDNT	Specially Designated Narcotics Traffickers
SDNTK	Specially Designated Narcotics Traffickers Kingpins
USC	United States Code
A.V.V.	Aruba Vrijgestelde Vennootschap (<i>Aruban Exempt Corporation</i>)
Cia.	Compañía (<i>Company</i>)
E.U.	Empresa Unipersonal (<i>Sole Proprietorship</i>)
Ltda.	Limitada (<i>Limited</i>)
S. de H.	Sociedad de Hecho (<i>De Facto Partnership</i>)
S. en C.	Sociedad en Comandita (<i>Limited Partnership</i>)
S.A.	Sociedad Anónima (<i>Corporation</i>)
S.A. de C.V.	Sociedad Anónima de Capital Variable (<i>Variable Capital Company</i>)
S.C.A.	Sociedad en Comandita por Acciones (<i>Limited Partnership by Shares</i>)
S.C.S.	Sociedad en Comandita Simple (<i>Limited Partnership</i>)

OVERVIEW OF SDNT COLOMBIA PROGRAM

President Clinton issued Executive Order 12978, "Blocking Assets and Prohibiting Transactions with Significant Narcotics Traffickers," on October 21, 1995, under authority of the International Emergency Economic Powers Act ("IEEPA"). The Executive Order found that the activities of significant foreign narcotics traffickers centered in Colombia and the unparalleled violence, corruption, and harm that they caused, constituted an unusual and extraordinary threat to the national security, foreign policy and economy of the United States. The Executive Order called upon the Treasury to target Colombian drug cartels using financial sanctions. Under this authority, OFAC launched the Specially Designated Narcotics Traffickers ("SDNT") program on October 24, 1995. The objectives of the SDNT program are to isolate and incapacitate the businesses and agents of the Colombian drug cartels by publicly exposing them, freezing their assets, and denying them access to the financial system and to the benefits of trade and transactions involving U.S. businesses and individuals.²

OFAC's principal tool for implementing these sanctions against narcotics traffickers is its list of Specially Designated Narcotics Traffickers.³ OFAC works in close consultation with the U.S. Departments of Justice and State to develop this list. It names not only the principal leadership of targeted drug cartels, but also their businesses and associates. At the outset of the program, the list included the four Cali drug cartel kingpins named in the Annex to Executive Order 12978, Gilberto and Miguel RODRIGUEZ OREJUELA, Jose SANTA-CRUZ LONDOÑO, and Helmer HERRERA BUITRAGO. Beginning in 1998, OFAC expanded the SDNT list beyond the Cali drug cartel and it

EXAMPLE OF SDNT LISTING

JUAR JASSIR Ricardo (aka JAAR JACIR Ricardo) do ALMACES S.A. Bogota Colombia do CONECCIONES LUÑO S.A. Barranquilla Atlantico Colombia do CORPORACION DE ALMACENES POR DEPARTAMENTOS S.A. Bogota Colombia do BIMBER INVESTING CORPORATION Virgin Islands British do G.L.G. S.A. Bogota Colombia do LLOVIN S.A. Bogota Colombia do JACARIA FLORIDA INC. Miami FL do RAMAL S.A. Bogota Colombia DOB 29 Sep 1940 POB Barranquilla Colombia citizen Colombia (Cedula No. 3714973 (Colombia); Passport AF665413 (Colombia); individual) [SDNT]
JACARIA FLORIDA INC. 1149 SW 27th Avenue Suite 203 Miami FL 33135, 9400 South Cleveland Boulevard Suite 601 Miami FL 33156, US FEIN 592804133 (United States) [SDNT]

Please refer to OFAC's website for complete listings (www.treas.gov/ofac).

2. The Order further prohibits any transaction or dealing by a U.S. person or within the United States in property or interests in property of persons designated pursuant to the Order, and any transaction that evades or avoids, has the purpose of evading or avoiding, or attempts to violate, the prohibitions contained in the Order. This impacts trade transactions (involving, for example, letters of credit) as well as accounts and other assets.
3. Another narcotics sanctions program was created on December 3, 1999, when the Foreign Narcotics Kingpin Designation Act ("Kingpin Act") was signed in to law. The Kingpin Act was modeled by Congress after the highly effective Colombian SDNT program, targeting the activities of significant foreign narcotics traffickers and their organizations on a worldwide basis. As with E.O. 12978, OFAC is the lead agency for implementation of the Kingpin Act. Those designated under the Colombian SDNT program are listed as "[SDNT]" on OFAC's "Specially Designated Nationals and Blocked Persons" list and those designated under the Kingpin Act are referred to as Specially Designated Narcotics Traffickers Kingpins "[SDNTK]" to differentiate the two programs. This report addresses only the Colombian SDNT program.

now includes the leaders, associates, and businesses of other Colombian drug cartels, such as the North Valle and North Coast drug cartels.

As of December 31, 2006, the SDNT list includes 527 companies and 815 individuals involved in the ownership or management of the 21 Colombian drug cartel leaders' business empires. The businesses named as SDNTs range across industries and include drugstore chains, a super-market chain, pharmaceutical laboratories, airlines, a medical clinic, hotels, restaurant service companies, radio stations, sports teams, communications companies, construction firms, real estate firms, investment and financial companies, consulting companies, off-shore firms, horse breeding farms and other agricultural businesses, mining operations, maritime agencies, and a department store.

Companies and individuals may be identified as SDNTs and placed on the SDNT list if they are determined to:

- play a significant role in international narcotics trafficking centered in Colombia;
- materially assist in or provide financial or technological support for, or goods or services in support of, the narcotics trafficking activities of persons designated in or pursuant to the executive order; or
- be owned or controlled by, or act for on or behalf of, persons designated in or pursuant to Executive Order 12978.

U.S. individuals and companies are prohibited from engaging in unlicensed transactions, including any commercial or financial dealings with any of the SDNTs. Upon designation as an SDNT, all SDNT assets within the United States or in the possession or control of U.S. persons, including their foreign branches, are blocked. This includes bank accounts and other property and interests in property.

When determined to be in the interest of U.S. foreign policy, OFAC may license activities to mitigate the effect of sanctions. For example, after OFAC designated *Drogas La Rebaja*, Colombia's largest chain of drugstores, the Colombian Government seized the company and appointed a receiver to manage its more than 449 stores across the country. OFAC then established a licensing policy to allow U.S. suppliers to engage in transactions with these companies, thus preserving their commercial viability under Colombian Government control.

OFAC sanctions in U.S. courts have been consistently upheld when challenged by SDNTs. The SDNT company *Copservir* filed a lawsuit in the U.S. District Court for the District of Columbia in April 1998 against the Secretary of the Treasury and the Director of OFAC. *Copservir* alleged violations of the Administrative Procedures Act, federal forfeiture laws and the U.S. Constitution. In March 1999, the court granted the defendants' motion and dismissed *Copservir's*

complaint. The court's decision was upheld in March 2000 in the U.S. Court of Appeals for the D.C. Circuit. The U.S. Supreme Court subsequently denied *Copservir's* petition for certiorari. *Cooperativa Multiactiva v. Newcomb*, No. 98-0949-LFO, 1999 U.S. Dist. Lexis 23168 (D.D.C. 1999); *aff'd* 221 F.3d 195 (D.C. Cir. 2000); *cert. denied*, 531 U.S. 817 (2000).

Violations carry criminal penalties of up to \$500,000 per violation for corporations and \$250,000 for individuals, as well as imprisonment of up to 20 years. Civil penalties of up to \$50,000 per violation may be imposed.



4 MAP OF COLOMBIA *Cities identify locations of Colombian drug cartel businesses discussed in this report.*

“[T]he U.S. pressure is reaching unexpected extremes. The largest international suppliers refuse to deal with us. The banks have closed down our accounts. It is impossible for us to pay our obligations.”

– As told to Colombian television in 1996 by Humberto RODRIGUEZ MONDRAGON—son of Cali drug cartel leader Gilberto RODRIGUEZ OREJUELA—referring to their business enterprises in Colombia.

Economic sanctions are employed to financially and commercially impair and impede, and to ultimately isolate and incapacitate narcotics traffickers, their supporters, and business empires. OFAC designations help publicly identify drug traffickers and their business empires and are often accompanied or followed by U.S. law enforcement actions and Government of Colombia asset seizures and forfeitures. Additionally, the threat of designation often deters top managerial talent—needed to operate and manage the often complex drug trafficking money laundering operations and business empires—from working for the drug traffickers and their business empires. As of December 2006, OFAC has identified drug traffickers’ assets under the Specially Designated Narcotics Traffickers program valued at more than \$1 billion.

Once designated, most narcotics traffickers try to evade and avoid the financial and commercial restrictions placed upon them and their businesses, by working through others or creating shell companies through which to control and conduct their business.⁴ Initially, sanctions impair and impede their ability to function; however, as OFAC continues to identify and designate supporters, businesses, and front companies, the drug cartel organizations face increasing isolation and incapacitation.

“We have been several years without sponsorships...we have more than one million dollars frozen that we won in international sports competitions.”

– Colombian news magazine quoting the president of the professional Colombian soccer team *America de Cali*, in February 2006—the soccer team was designated in June 1999 as an SDNT of Cali cartel leaders Miguel and Gilberto RODRIGUEZ OREJUELA.

At the outset of a designation, all assets within the United States of a designated party are blocked.⁵ Additionally, any transactions with a designated person that are caught in the United States are blocked. OFAC actions in 2006 alone resulted in multi-million dollar blockings in accounts and real property in the United States, stemming from focused, in-depth OFAC investigations of Colombia’s North Valle drug cartel’s business and financial networks. SDNT companies and individuals face real costs as a result of being denied access to banking services in the

United States. An even more significant impact can come from the severing of trade with the United States. Some companies named as SDNTs that were heavily dependent upon trade with U.S. businesses have been forced out of business.

OFAC's designation of companies and individuals tied to Colombia's drug cartels often prompts non-U.S. parties to take similar actions. Many non-U.S. banks have, as a routine practice, closed the accounts of all persons (individuals and entities) on the OFAC SDNT list. For example, many Latin American banks have advised OFAC that they rely on the SDNT list as part of their due diligence in identifying high-risk account holders. Non-U.S. companies that have no obligation to comply with U.S. sanctions often refuse to work for, supply or otherwise do business with SDNT commercial enterprises or employ persons on the SDNT list, thereby further isolating them commercially. As a result, designated persons are impeded from functioning effectively in the legitimate economy or business world.

As of December 2006, public records in Colombia and other countries show that hundreds of companies named as SDNTs have dissolved, are in the process of dissolution, or are inactive. As some SDNT companies attempt to continue their operations through changes to their company names, corporate structure, or other evasion schemes, OFAC has pursued them for designation as well.

In Colombia, the courts have upheld a Colombian bank's right to deny service to high-risk account holders, such as SDNTs. In March 2001, *Copservir*, a pharmacy chain owned by the RODRIGUEZ OREJUELA drug trafficking organization, filed a lawsuit in the circuit court in Cali, Colombia against six Colombian banks for refusing to provide banking services to *Copservir* because of its status on OFAC's SDNT list. In May 2003, the Colombian Constitutional Court ruled in favor of the banks' right to refuse such services. Effectively, SDNT businesses are forced out of the formal financial sector—depriving them the use of bank services to pay for goods and payroll, receive payment for goods, enjoy credit lines, and issue letters of credit to foreign suppliers. These businesses are often forced to work on a cash basis.

“[The OFAC list] is the most powerful tool the United States has against the traffickers.”

– As one Colombian cartel source described OFAC designations.

Throughout the sanctions process, OFAC cooperates with law enforcement agencies. Its designations often provide a picture of the cartels' support networks, helping further inform U.S. law enforcement actions and a variety of foreign government enforcement actions geared to disrupting and dismantling the financial infrastructure of the Colombian drug cartels. Companies designated as SDNTs by OFAC have concurrently or subsequently been investigated by law enforcement authorities in Colombia, Panama, Ecuador, Costa Rica, Peru, Spain, and Aruba. In Colombia, the government has initiated numerous asset forfeiture cases against many of the

SDNT companies.⁶

SECTION 1

“[The OFAC] list is tough.”

– A complaint made to U.S. authorities by an SDNT principal individual. Because of OFAC’s list, his companies were going out of business, his grown children could not get a job, and it became hard for him to pay for their university studies.

The Department of State also uses the SDNT list. It has denied U.S. visas and revoked existing U.S. visas to individuals named as SDNTs, which means that family members and other designated associates may be deprived of high-priced and highly-prized U.S. college educations as well as the amenities and entertainments that their wealth might otherwise afford.

Individuals are deterred from associating with designated narcotics traffickers and their businesses, in part, because their reputations could be ruined, and in part because by doing so, they also might be designated. An SDNT designation of an individual in Colombia and elsewhere carries an overwhelming social stigma that tarnishes or ruins personal reputations and forecloses many financial and commercial opportunities. Designation of enterprises has the additional effect of impairing their ability to hire, train, and retain the top talent needed to operate and manage their often complex narcotics trafficking operations and business empires, as many talented managers and personnel refuse to work for them. For example, in November 2006, within 72 hours of the designation of the soccer team *Cortulua*, the team’s president and three of its five board members resigned, sponsors withdrew their support, and key business partners publicly announced the severing of all commercial ties with the team.

As previously mentioned, sanctions initially impair and impede the ability of narcotics traffickers and their enterprises to function, but as OFAC continues to identify and designate supporters, businesses, and front companies, the drug cartel organizations face increasing isolation and incapacitation. This is best illustrated by the actions OFAC has taken over eleven years against the RODRIGUEZ OREJUELA narcotics trafficking organization—part of the Cali drug cartel in Colombia—that helped dismantle this organization.

“What was suffered was more than what was enjoyed.”

– As quoted by one RODRIGUEZ OREJUELA family member, referring to the effect of being placed on OFAC’s SDNT list.

In October 1995, President Clinton named the two RODRIGUEZ OREJUELA brothers Miguel and Gilberto, in the Annex to Executive Order 12978. During the next eleven years, OFAC designated more than 200 front companies, including a prominent Colombian drugstore chain *Drogas La Rebaja*—and its successor businesses, which had been created with the purpose of

evading the original designation—and key family members and business associates who managed the business enterprises owned by the RODRIGUEZ OREJUELA organization.

In September 2004, the Colombian authorities seized *Drogas La Rebaja*, which they estimated to be worth over \$200 million.

In a September 2006 agreement with the U.S. Government, Miguel and Gilberto RODRIGUEZ OREJUELA and 28 SDNT individuals—all key family members associated with the RODRIGUEZ OREJUELA drug trafficking organization—agreed to forfeit their interests in all narcotics-related entities world-wide up to \$2.1 billion,⁷ which mainly consisted of the hundreds of entities designated by OFAC since 1995.⁸ The entities addressed by the agreement will be forfeited in the jurisdiction in which they are located, primarily Colombia. The agreement also commits the family members to assist the U.S. and Colombian Governments in any future forfeiture actions. In connection with this agreement, Miguel and Gilberto RODRIGUEZ OREJUELA also pled guilty to all federal drug trafficking and money laundering charges in the Southern District of Florida and the Southern District of New York.

“The list demonizes you in Colombia. The worst part is for the family. The banks simply close their doors to you.”

– A major Colombian narcotics trafficker

Designations of individuals and entities in the VALENCIA TRUJILLO organization provide additional examples of the impact of the sanctions program.

Joaquin Mario VALENCIA TRUJILLO, head of the VALENCIA TRUJILLO organization, employed family members, including his brother, Guillermo, and several sisters—to run his enterprises.⁹ He and his family were once considered to be reputable business persons both in Colombia and internationally. Since designation, the VALENCIA TRUJILLO organization has been unable to liquidate assets or sell enterprises to third parties. Many of the designated businesses were either seized by Colombian authorities or forced to close because of the OFAC designation. All family members involved in the enterprise have been designated and face the same sanctions prohibitions.

One of the most illustrative examples of the crippling effect that an OFAC designation can have on a business enterprise involves *Criadero La Luisa*, a horse breeding farm, which OFAC designated in March 2003. The farm maintained about 300 *paso fino* horses—some of which

were estimated to be worth more than \$1 million a piece. Prior to designation, U.S. customers accounted for the majority of the farm's horse sales and breeding services. Shortly after the enterprise's designation, OFAC sent out alert letters to the U.S. horse breeding industry, which effectively shut down all U.S. business relationships and hindered other lucrative non-U.S. sales.

Since 2000, OFAC also has focused its sanctions investigations on Colombia's North Valle drug cartel. The impact of these designations is beginning to take hold. For example, in the past two years more than \$160 million in assets have been affected in a series of actions against four of the more than 14 North Valle drug cartel leaders.

In March 2005, concurrently with the designation of Carlos Alberto RENTERIA MANTILLA (a.k.a. "Beto" RENTERIA), OFAC blocked approximately \$1 million worth of assets belonging to Beto RENTERIA and his family, including bank accounts, cars, and real estate in Boston, Massachusetts and Miami, Florida. On May 11, 2005, OFAC designated Raul Alberto GRAJALES LEMOS and in the following days, Colombian authorities arrested Raul GRAJALES LEMOS and several of his SDNT associates on charges of money laundering.

In February 2005, five months after its designation by OFAC, the Colombian authorities seized the airline, *Intercontinental de Aviacion*, controlled by the PUERTA PARRA and the HERNANDEZ ZEA organizations of the North Valle drug cartel. The seizure included the airline's fleet of six airplanes worth approximately \$21 million, according to a Colombian source familiar with the airline.

In June 2005, shortly after having been designated by OFAC, Colombian authorities seized the GRAJALES LEMOS organization-controlled *Grupo Grajales*—one of the largest agricultural conglomerates in the country that includes a winery and fruit companies, as well as real estate and other assets. The authorities estimated the worth of the conglomerate to be worth over \$100 million.

In March 2006, a Colombian newspaper announcement placed by the department store chain *Casa Estrella*—controlled by the RENTERIA MANTILLA and GRAJALES LEMOS organizations and named as an SDNT in May 2005—stated that the chain would be closing its Barranquilla store. The department store chain's closing was due to the fact that it did not have financial services and checking accounts, could not accept credit or debit cards, and some national suppliers refused to sell products to the chain. Subsequently, in August 2006, the Colombian Government seized the *Casa Estrella* department store chain, along with other companies and properties. The real property alone had an estimated worth of approximately \$38.5 million.

In June 2006, OFAC named five companies in Panama as SDNTs, including *Cipe Investments Corporation*, *Elizabeth Overseas, Inc.*, *Karen Overseas, Inc.*, *Kattus II Corporation*, and *Rixford*

Investment Corporation. All of these companies had financial ties to the RENTERIA MANTILLA and GRAJALES LEMOS organizations in Colombia through associates in *Casa Estrella*. Shortly afterwards, the Panamanian press reported that judicial authorities initiated a money laundering investigation against the fronts.

In September 2006, Colombian authorities seized properties and companies belonging to SDNT individual Eduardo RESTREPO VICTORIA, a key associate of the VARELA organization. Colombian authorities valued the seized assets at more than \$22 million.

In November 2006, within 72 hours of the designation of the soccer team *Cortulua*, the team's president and three of its five board members resigned, sponsors withdrew their support, and key business partners publicly announced the severing of all commercial ties with the team.

Economic sanctions are employed to expose, impair and impede, and to isolate and incapacitate narcotics traffickers and their support structures. In the Specially Designated Narcotics Traffickers program, there have been five major impacts on and implications for the drug trafficking groups and their business empires. These are:

Asset Blocking in the United States. Any money, assets, or property of a designated person within U.S. jurisdiction are blocked and any subsequent transactions which are caught are blocked, depriving the designee use of these assets.

Isolation from U.S. Financial and Commercial Markets. Financial transactions and commercial dealings by a U.S. person with designated persons are prohibited, barring the designee from the benefits of the U.S. financial and commercial systems.

Isolation from Non-U.S. Financial and Commercial Markets. Many banks outside U.S. jurisdiction refuse to hold funds, provide any type of financial services for the SDNT or the SDNT's commercial enterprises, and have closed their bank accounts. Businesses outside of U.S. jurisdiction also may refuse to work with the SDNT or supply or do business with the SDNT's commercial enterprises.

Law Enforcement. The SDNT list often provides a picture of the cartels' support networks, helping inform U.S. law enforcement actions and foreign seizures and forfeitures geared to disrupting and dismantling the financial and commercial infrastructure of the Colombian drug cartels.

Deterrence. Anyone—family members, friends, and associates—who is employed by the narcotics traffickers or controls or manages their business empires is subject to designation under E.O. 12978. The threat of designation and the reputational risk often deters top managerial talent—needed to operate and manage the often complex drug trafficking money laundering operations and business empires—from working for designated drug traffickers and their business empires.



- Prepared Remarks by Adrian Szirmai, Director, Office of Foreign Assets Control

September 26, 2006

Today's agreements represent government at its best. By combining the financial sanctions powers of the Treasury Department with law enforcement and criminal authorities, and working closely with our partners in Colombia, we have crippled what was one of the most notorious and dangerous drug cartels in the world.

Today's agreement brings into sharp relief the power of financial sanctions. Since 1995, Treasury's Office of Foreign Assets Control, or "OFAC," has relentlessly pursued Colombian drug cartels, using Executive Order 12978 to designate and freeze the U.S.-controlled assets of over 1,200 companies and individuals. We have focused in particular on the notorious Cali cartel, designating over 700 entities and people that were operating as fronts for Gilberto and Miguel Rodriguez Orejuela. The heart of this financial network was the Colombian drugstore chain Drogas La Rebaja, as well as pharmaceutical laboratories like Farmacoop, which allowed the Rodriguez Orejuelas to launder their narcotics proceeds while providing an ostensibly legitimate source of income for family members and associates.

For ten years, OFAC investigators pursued the Rodriguez Orejuela's dirty assets around the world, uncovering new front companies in Colombia, Ecuador, Spain and six other countries, as the family attempted to mask its financial trails and circumvent our sanctions.

The impact of these sanctions has been dramatic. When OFAC designates a person or company, any assets held by a U.S. person or bank, anywhere in the world, must be frozen. Trade with or through the United States is cut off. Even more importantly, Colombian businesses and banks follow suit, severing all ties with entities that OFAC has listed. Time and again, U.S.-designated narcotics traffickers have been barred from opening bank accounts in Colombia or conducting business. And Colombian authorities have frequently been able to act against designated companies or properties, as they did in a massive forfeiture action against Drogas La Rebaja.

Indeed, in Colombia, being designated by OFAC is referred to as "muerte civil" or civil death.

This unrelenting pressure was a key cause of today's agreements. In a separate agreement, 28 designated family members of the Rodriguez Orejuela family have today agreed to forfeit their interests in all narcotics-related entities worldwide, including the hundreds of entities designated by OFAC since 1995. They have also committed to assist U.S. and Colombian governments in any future forfeiture actions. If the 28 Rodriguez Orejuela family members fully comply with the terms of the agreement and meet all terms of removal, we will work to remove them from OFAC's list. Any future dealings with narcotics traffickers, including on behalf of the two still-designated Rodriguez Orejuela brothers, will land them back on the list.

Today's outcome is a success – two dangerous drug lords are headed to prison and their once-powerful financial empire has been dismantled. This result is a team effort in every sense of the word, and we extend our deep appreciation to our dedicated colleagues in the U.S. Attorney's Offices in Miami and New York, the Drug Enforcement Administration, the Departments of Homeland Security and State, and in the Colombian government. And I want to extend a special thanks to our exceptional narcotics team at OFAC.

For ease of reference, set forth below is a brief summary of the Cali, North Valle, and North Coast drug cartels and their principal component organizations.¹⁰ More detailed descriptions of these groups and organizations are set forth in Sections 2, 3, and 4, respectively, of this report and additional information can be found in Appendix A and B.

Cali Cartel

The Cali drug cartel is based in the city of Cali, Colombia. Led by Gilberto RODRIGUEZ OREJUELA, Miguel RODRIGUEZ OREJUELA, Jose SANTACRUZ LONDOÑO, and Helmer HERRERA BUITRAGO, the Cali drug cartel orchestrated the manufacture of hundreds of tons of cocaine in Colombia in the early 1980s, which were then moved through the Caribbean and Mexico to U.S. markets. By the early 1990s, the Cali drug cartel was responsible for approximately 80 percent of the world's cocaine supply. Actions taken by U.S. and Colombian authorities led to the surrender or arrest of the RODRIGUEZ OREJUELA brothers, SANTACRUZ LONDOÑO, HERRERA BUITRAGO, and other Cali drug cartel leaders between 1994 and 1996, and the dismantling of the Cali drug cartel's trafficking infrastructure. Colombian law enforcement and OFAC actions led to the disruption of the business empires built with their illicit drug trafficking proceeds. The principal individuals designated by OFAC are:

Gilberto Jose & Miguel Angel RODRIGUEZ OREJUELA

Jose SANTACRUZ LONDOÑO

Helmer HERRERA BUITRAGO

Joaquín Mario & Guillermo VALENCIA TRUJILLO

North Valle Cartel

Based in the northern part of Colombia's Valle del Cauca region, the North Valle drug cartel rose to prominence in the 1990s. It began as a splinter group of the Cali drug cartel following the arrest of Cali drug cartel leaders Miguel and Gilberto RODRIGUEZ OREJUELA in 1995. Through its brutal tactics and alliances with narco-terrorist organizations such as the United Self Defense Forces of Colombia ("AUC"), the North Valle drug cartel was able to export over one million pounds of cocaine, worth an estimated \$10 billion, to the United States via Mexico between 1990 and 2004. In 2004, the Drug Enforcement Administration ("DEA") described the North Valle drug cartel as the "*largest and most powerful drug cartel in Colombia*" and stated that the North Valle drug cartel was responsible for one-third to one-half of the cocaine that reaches American shores. The principal individuals designated by OFAC are:

Ivan & Julio Fabio URDINOLA GRAJALES
Arcangel de Jesus HENAO MONTOYA
Juan Carlos RAMIREZ ABADIA
Victor Julio PATIÑO FOMEQUE
Diego Leon MONTOYA SANCHEZ
Luis Hernando GOMEZ BUSTAMANTE
Gabriel PUERTA PARRA and Luis Antonio HERNANDEZ ZEA
Carlos Alberto RENTERIA MANTILLA
Raul Alberto GRAJALES LEMOS
Wilber VARELA
Jhon Eidelber CANO CORREA
Orlando SABOGAL ZULUAGA

North Coast Cartel

Various drug trafficking organizations based along the northern coast of Colombia have operated maritime drug smuggling routes for the Medellin, Cali, and North Valle drug cartels since the 1970s. One major North Coast drug trafficker, Julio Cesar NASSER DAVID, ran a drug and money laundering group based out of the city of Barranquilla, Colombia. Since the 1970s, NASSER DAVID's organization has smuggled multi-ton quantities of cocaine and marijuana to the United States via commercial shipments and maritime vessels. This organization was seriously impaired as a result of NASSER DAVID's arrest in 1997, OFAC sanctions since May 1998, and NASSER DAVID'S subsequent death in 2001. The principal individual designated by OFAC is:

Julio Cesar NASSER DAVID



14 MAP OF COLOMBIA *Cities in bold mark locations of Cali drug cartel businesses.*

During the time the Colombian National Police were engaged in their campaign to bring down the Medellin drug cartel in the late 1980s and early 1990s, a group of powerful drug traffickers from Cali, Colombia were building what was to become one of the most prolific and successful criminal enterprises in recent history. Led by Gilberto RODRIGUEZ OREJUELA, Miguel RODRIGUEZ OREJUELA, Jose SANTACRUZ LONDOÑO, and Helmer HERRERA BUITRAGO, the Cali drug cartel trafficked approximately 80 percent of the world's cocaine by the early 1990s. At the height of their power, the Cali drug cartel's annual revenue reached an estimated \$7 billion.

Working collaboratively, the four principal Cali drug cartel leaders formed an organization that handled both the entire chain of narcotics trafficking—such as raw material procurement, processing, delivery, wholesaling, retailing—and subsequent laundering of the illicit proceeds. While the Cali drug cartel consolidated the production and distribution of illicit narcotics into one operation, the proceeds from these operations were distributed separately among four major organizations, each headed by one of the four principals. Each organization largely invested, developed, and managed its own separate business empire. Each business empire grew to include a vast network of companies, run by family members and a cadre of trusted business associates in Colombia, Ecuador, Panama, Peru, Spain, and Venezuela. The Cali drug cartel headquartered its business empire in and around Cali, Colombia, developing a political, social, and business base of support.

The Cali drug cartel's operations began to unravel in the mid-1990s with a series of U.S. law enforcement indictments, OFAC designations, and Colombian Government actions. Law enforcement uncovered the various drug trafficking operations, while OFAC commercially isolated the drug cartel's business empires by identifying and designating their companies and principal managers. Ultimately, it was the sheer size of the narcotics trafficking enterprise that made its operations vulnerable.

Sanctions against the Cali drug cartel began with the naming of all four Cali drug cartel leaders by the President in the Annex to Executive Order 12978 on October 21, 1995.

As will be explained in more detail below, OFAC's continued sanctions pressure was a key impetus to the guilty pleas of Miguel and Gilberto RODRIGUEZ OREJUELA in U.S. Federal Court in Miami, Florida on September 26, 2006. Miguel and Gilberto RODRIGUEZ OREJUELA admitted to over two decades of drug trafficking and to laundering the proceeds through the network of companies that OFAC had targeted in over a dozen investigations over the past decade. The brothers were sentenced to 30 years in jail and ordered to forfeit up to \$2.1 billion in assets.

The Cali drug cartel was formed in the 1970s by Gilberto and Miguel RODRIGUEZ OREJUELA and Jose SANTACRUZ LONDOÑO. While Gilberto and Miguel RODRIGUEZ OREJUELA were initially involved in other criminal activities such as kidnappings in the late 1960s, they gradually expanded into smuggling cocaine base from Peru and Bolivia to Colombia for conversion into powder cocaine. By the late 1970s, the RODRIGUEZ OREJUELA brothers were known as major transportation specialists who moved cocaine out of Colombia into the United States and other countries. Gilberto RODRIGUEZ OREJUELA was responsible for the strategic, long-term planning of the organization. Miguel RODRIGUEZ OREJUELA was the hands-on manager who ran the day-to-day operations. They maintained a sophisticated, highly-structured drug trafficking organization that was tightly controlled. Each day, details of loads and money shipments were electronically communicated to heads of cocaine cells operating within the United States. The RODRIGUEZ OREJUELA brothers were intimately involved in every phase of the business—production, transportation, financing, and communications. They knew the how, when, and where of every cocaine shipment, down to the markings on the packages. They even set production targets for the cocaine they sold.

A November 1994 Drug Enforcement Administration (“DEA”) report entitled, “The Cali Cartel: The New Kings of Cocaine,” stated that Gilberto and Miguel RODRIGUEZ OREJUELA controlled “*what may be the most powerful of the Cali Cartel organizations.*”

In June 1995, a federal grand jury in Miami, Florida issued a landmark Racketeer Influenced and Corrupt Organizations Act (“RICO”) indictment against the leaders of the Cali drug cartel, including Miguel and Gilberto RODRIGUEZ OREJUELA, and charged the Cali drug cartel with the importation of 200,000 kilograms of cocaine and the laundering of \$2 billion from 1983 through 1995.

In reaction to law enforcement actions, the RODRIGUEZ OREJUELA brothers used a network of family members and associates as front persons in their companies to disguise the true ownership or control of their assets. Both Miguel and Gilberto were identified early on in public documents in Colombia as partners in several companies. Subsequently, however, they attempted to conceal their continuing control of these companies in order to insulate their assets from seizure by law enforcement authorities. Their companies are now held under the names of family members and associates who may appear as shareholders, officers, or managers at different points in the companies’ histories, while in fact the companies continue to be owned or controlled by Gilberto and Miguel RODRIGUEZ OREJUELA.

Gilberto and Miguel RODRIGUEZ OREJUELA were arrested by Colombian police operations in June and August 1995, respectively. On October 24, 1995, subsequent to their naming by

the President in the Annex to E.O. 12978, OFAC designated 13 businesses and 32 individuals involved with the RODRIGUEZ OREJUELA organization, including its most important asset, the *Drogas La Rebaja* drugstore chain.

In late 1996, the RODRIGUEZ OREJUELA brothers reached an agreement with the Colombian Government to plead guilty to drug charges in Colombia, rather than face future possible extradition to the United States. However, they continued to control the Cali drug cartel from prison.

Since the implementation of E.O. 12978 in October 1995 until September 2006, OFAC continued to identify new assets of the RODRIGUEZ OREJUELA organization and followed the organization's attempted evasions to preserve assets by changing names or restructuring of already designated companies. This resulted in the designation of 246 front companies over 11 years under at least 12 separate OFAC designation actions against the RODRIGUEZ OREJUELA organization. OFAC identified assets of the organization in 10 countries, including Colombia, Costa Rica, Ecuador, Panama, Peru, Spain, Venezuela, the Bahamas, the British Virgin Islands, and the United States.

In December 2003 and March 2004, two new federal indictments were unsealed and extradition warrants filed requesting that the Colombian Government extradite Gilberto and Miguel RODRIGUEZ OREJUELA, based on new U.S. charges of narcotics trafficking and money laundering. Subsequently, they were extradited to the United States in December 2004 and March 2005, respectively.

In September 2006, Gilberto and Miguel RODRIGUEZ OREJUELA pled guilty to all federal drug trafficking and money laundering charges brought by the U.S. Attorney's Office for the Southern District of Florida and the U.S. Attorney's Office for the Southern District of New York.

OFAC designations since October 1995 helped identify the RODRIGUEZ OREJUELA financial and business empire throughout the world. The economic sanctions played a key role in the commercial and financial isolation of the RODRIGUEZ OREJUELA businesses and impaired its organizational integrity.

"In 1996, after OFAC applied sanctions against many of their principal companies, Gilberto and Miguel RODRIGUEZ OREJUELA arranged for their pharmaceutical drugs to be sold to numerous companies outside Colombia in an effort to protect their assets and avoid OFAC sanctions. These foreign companies were effectively controlled by trusted associates of the Cali Cartel. In addition, after their companies were sanctioned by OFAC, Gilberto and Miguel RODRIGUEZ OREJUELA and their criminal associates established "new" or "re-organized" companies from the previously sanctioned companies. These "new" companies simply assumed the assets and continued to perform the services of the previously sanctioned companies."

In Colombia, subsequent to OFAC designations, the authorities have seized the majority of the RODRIGUEZ OREJUELA organization's assets in the course of a number of large operations.

In September 2004, the Colombian Government finally seized the drugstore chain *Drogas La Rebaja* in what was considered the largest asset forfeiture operation in Colombian law enforcement history. A team of 465 Colombian prosecutors, accompanied by 3,000 police and 20 accountants, seized all *Drogas La Rebaja* drugstores across Colombia. According to Colombian officials, "This is the largest occupation of property linked to the drug trade in the history of the country." The drugstore chain was valued by Colombian authorities at approximately \$220 million.

In August 2005, Colombian authorities followed up the September 2004 seizure of *Drogas La Rebaja* by seizing nearly all the RODRIGUEZ OREJUELA property on which the drugstores of the chain were located.

In May 2006, Colombian authorities initiated a second follow up operation to the September 2004 seizure of *Drogas La Rebaja* and seized the RODRIGUEZ OREJUELA company *Prosalud*, a 17-drugstore chain based in Cali, as well as numerous other affiliated companies, including *Credirebaja*, the credit card company used by *Drogas La Rebaja*.

Also, in May 2006, a Colombian judge ordered the forfeiture of hundreds of assets belonging to Gilberto and Miguel RODRIGUEZ OREJUELA, including 74 properties located in Cali, Bogota, and San Andres, their shares in the professional soccer team *America de Cali*, and 17 companies. These property assets and companies, valued by Colombian authorities in excess of \$45 million, had been seized in operations since 1996.

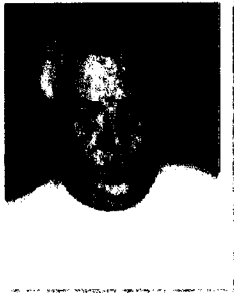
In September 2006, a major agreement was reached with Gilberto and Miguel RODRIGUEZ OREJUELA when they pled guilty to drug trafficking and money laundering charges. They agreed to a forfeiture of up to \$2.1 billion in assets to be levied against their narcotics-related assets found anywhere in the world, as well as all RODRIGUEZ OREJUELA business entities worldwide. These entities are mainly the 246 front companies already designated by OFAC over the past 11 years under at least 12 separate OFAC designation actions. In a separate agreement, 28 family members of the RODRIGUEZ OREJUELAS agreed to forfeit their right, title, and interest in all RODRIGUEZ OREJUELA business entities worldwide, including all those designated by OFAC since 1995. These family members also agreed to forfeit and/or divest themselves of all the businesses on the OFAC list, in addition to continuing to assist U.S. and Colombian Governments in any ongoing or later related forfeiture actions against their assets. If the RODRIGUEZ OREJUELA family members fully comply with the terms of the agreement, they will be eligible to be removed from OFAC's SDNT list. These agreements resulted from a combination of the sanctions powers of the Department of the Treasury with the authorities of

the U.S. Attorney's Offices in Miami and New York, the Drug Enforcement Administration, the Departments of Homeland Security and State, and Colombian authorities.

In November 2006, the RODRIGUEZ OREJUELA brothers entered their guilty pleas to money laundering charges in the U.S. District Court for the Southern District of New York.

SECTION 2

RODRIGUEZ OREJUELA ORGANIZATION



**Gilberto Jose
RODRIGUEZ OREJUELA**

Aliases: "El Ajedrecista"
(The Chess Player)
Date of Designation: 21-Oct-1995
POB: Colombia
DOB: 31-Jan-1939
Cedula Number: 6068015
Passport Number: T321642
Indictments: 1995 RICO indictment of Cali drug cartel in Southern District of Florida; Dec-2003 (Southern District of Florida); Mar-2004 (Southern District of New York)
Arrests/Convictions: Extradited to U.S. from Colombia in Dec-2004. Plead guilty to all federal drug trafficking and money laundering charges in Sept-2006.



**Miguel Angel
RODRIGUEZ OREJUELA**

Aliases: "El Señor"
Date of Designation: 21-Oct-1995
POB: Colombia
DOB: 23-Nov-1943
Cedula Number: 6095803
Indictments: 1995 RICO indictment of Cali drug cartel in Southern District of Florida; Dec-2003 (Southern District of Florida); Mar-2004 (Southern District of New York)
Arrests/Convictions: Extradited to the United States from Colombia in March 2005. Plead guilty to all federal drug trafficking and money laundering charges in Sept-2006.

KEY FAMILY MEMBERS



**Jaime
RODRIGUEZ MONDRAGON**
Designation Date: 21-Oct-1995
Relationship: Son of Gilberto
Cedula: 16637592
DOB: 30-Mar-1960



**Humberto
RODRIGUEZ MONDRAGON**
Designation Date: 21-Oct-1995
Relationship: Son of Gilberto
Cedula: 16688683
DOB: 21-Jun-1963



**Maria Alexandra
RODRIGUEZ MONDRAGON**
Designation Date: 21-Oct-1995
Relationship: Daughter of Gilberto
Cedula: 66810048
DOB: 30-May-1969



**William
RODRIGUEZ ABADIA**
Designation Date: 21-Oct-1995
Relationship: Son of Miguel
Cedula: 16716259
DOB: 31-Jul-1965



**Carolina
RODRIGUEZ ARBELAEZ**
Designation Date: 21-Oct-1995
Relationship: Daughter of Miguel
Cedula: 29117505
DOB: 17-May-1979



**Claudia Pilar
RODRIGUEZ RAMIREZ**
Designation Date: 21-Oct-1995
Relationship: Daughter of Gilberto
Cedula: 51741013
DOB: 30-Jun-1963



**Juan Carlos
MUÑOZ RODRIGUEZ**
Designation Date: 21-Oct-1995
Relationship: Nephew
Cedula: 16703148
DOB: 25-Sept-1964



**Maria Fernanda
RODRIGUEZ ARBELAEZ**
Designation Date: 17-Oct-2003
Relationship: Daughter of Miguel
Cedula: 66860965
DOB: 28-Nov-1973



**Andre Gilberto
RODRIGUEZ RAMIREZ**
Designation Date: 6-Feb-2003
Relationship: Son of Gilberto
Cedula: 16798937
DOB: 22-Mar-1972

KEY BUSINESS ASSOCIATES



**Fernando Antonio
GUTIERREZ CANCINO**
Designation Date: 21-Oct-1995
Cedula: 6089071
DOB: 4-Dec-1941



**Alfonso
GIL OSORIO**
Designation Date: 21-Oct-1995
Cedula: 14949279
DOB: 17-Dec-1946



**Jaime Alberto
ARISTIZABAL ATEHORTUA**
Designation Date: 5-Mar-1996
Cedula: 16756325
DOB: 11-Oct-1968



**Eduardo
MOGOLLON RUEDA**
Designation Date: 21-Oct-1995
Cedula: 19194691
DOB: 5-Feb-1953

IMPACT OF OFAC SANCTIONS ON THE RODRIGUEZ OREJUELA PHARMACEUTICAL EMPIRE

Oct. 1995 Mar. 1996 Jul. 1996 Apr. 1997 Apr. 1998 Mar. 1999 Jun. 1999 Feb. 2000 Mar. 2000 Dec. 2000 Mar. 2001

The President names Miguel and Gilberto RODRIGUEZ OREJUELA in the Annex to Executive Order 12978

OFAC designates companies associated with the RODRIGUEZ OREJUELA brothers, including the Colombian drugstore chain DROGAS LA REBAJA

OFAC designates companies associated with the RODRIGUEZ OREJUELA brothers, including RONAPCOMERCIO y REPRESENTACIONES in Quito, Ecuador

DROGAS LA REBAJA's 4,000 employees ostensibly purchase the company and transform it into a worker's cooperative named COPSERVIR

OFAC names COPSERVIR along with six related companies as SDNTs

COPSERVIR files a lawsuit in U.S. District Court against the U.S. Government regarding its designation as an SDNT

U.S. District Court dismisses COPSERVIR's lawsuit against the U.S. Government

OFAC designates six companies associated with COPSERVIR, including the pharmaceutical cooperative ARMACOOPI

OFAC designates four companies associated with COPSERVIR, including DROMARCA

U.S. Courts uphold U.S. District Court's decision to dismiss COPSERVIR's complaint

OFAC designates three companies associated with COPSERVIR, including the drugstore chain's credit card company, CREDIREBAJA

COPSERVIR files a lawsuit in Colombian court against six Colombian banks for refusing banking services because of their OFAC designation

1995 - 1996

/// DROGAS LA REBAJA ///

- Distribuidora de Drogas La Rebaja Principal S.A. (a.k.a. Drogas La Rebaja S.A.)
- Blanco Pharma S.A. (a.k.a. Laboratorios Blanco Pharma S.A.)
- Alpha Pharma S.A.
- Deposito Popular de Drogas S.A.
- Distribuidora de Drogas Condor S.A. (a.k.a. Drogas Condor)
- Distribuidora de Drogas La Rebaja Barranquilla S.A. (a.k.a. Drogas La Rebaja Barranquilla S.A., f.k.a. Servicios Sociales Ltda.)
- Distribuidora de Drogas La Rebaja Bucaramanga S.A. (a.k.a. Drogas La Rebaja Bucaramanga S.A.)
- Distribuidora de Drogas La Rebaja Cali S.A. (a.k.a. Drogas La Rebaja Cali S.A.)
- Distribuidora de Drogas La Rebaja Nerva S.A. (a.k.a. Drogas La Rebaja Nerva S.A.)
- Distribuidora de Drogas La Rebaja Pasto S.A. (a.k.a. Drogas La Rebaja Pasto S.A.)
- Distribuidora de Drogas La Rebaja Pereira S.A. (a.k.a. Drogas La Rebaja Pereira S.A.)
- Distribuidora Myramirez S.A.
- Farmatodo S.A.
- Laboratorios Blaimar de Colombia S.A. (a.k.a. Blaimar, a.k.a. Comercos S.A.)
- Laboratorios Genéricos Veterinarios de Colombia S.A. (a.k.a. Gen Vet S.A.)
- Laboratorios Kresslor de Colombia S.A. (a.k.a. Kresslor)
- Penta Pharma de Colombia S.A. (a.k.a. Pentacoop Ltda.)
- Plásticos Condor Ltda.
- Ronap Comercio y Representaciones S.A.
- Servicios Sociales Ltda.

Located in: Barranquilla, Bogotá, Bucaramanga, Cali, Nerva, Pasto, Pereira, and Quito, Ecuador

1997



- Copservir Ltda. (a.k.a. Cooperativa Multiactiva de Empleados de Distribuidores de Drogas Copservir Ltda.)
- Dismercoop (a.k.a. Cooperativa Multiactiva de Empleados de Supermercados y Afines)
- Flexoempaques Ltda. (a.k.a. Plásticos Condor Ltda.)
- Cointercos S.A. (a.k.a. Compañía Interamericana de Cosméticos S.A.), (f.k.a. Laboratorios Blaimar de Colombia S.A.)
- Cosmepop (a.k.a. Cooperativa de Cosméticos y Populares)
- Farmacoop (a.k.a. Cooperativa Multiactiva de Comercialización y Servicios Farmacoop)
- Pentacoop Ltda. (f.k.a. Penta Pharma de Colombia S.A.)

Located in: Bogotá, Cali

1999 - 2000



- Credirebaja S.A.
- Admacoop (a.k.a. Cooperativa Multiactiva de Administración y Manejo Admacoop)
- Dromarca y Cia. S.C.S.
- Patentes Marcas y Registros S.A. (a.k.a. Patmar S.A.)
- Bonomercad S.A. (f.k.a. Decacoop S.A.)
- Comedicamentos S.A.
- Decafarma S.A.
- Distribuidora Agropecuaria Colombiana S.A. (a.k.a. Diagrocol S.A.)
- Farmahogar (a.k.a. Farmahogar Copservir 19, Droguera Farmahogar)
- Gajan S.A.
- Inversiones Bombay S.A. (a.k.a. Agroveterinaria El Torol)
- Poliempaques Ltda.
- Servicios Farmacéuticos Servifar S.A. (a.k.a. Servifar S.A.)

Located in: Bogotá, Cali

IMPACT OF DROGAS LA REBAJA

As the drug trafficking organization headed by Miguel and Gilberto RODRIGUEZ OREJUELA grew, so did their drug store chain named DROGAS LA REBAJA. It quickly became Colombia's largest pharmacy, valued by Colombian authorities at approximately \$220 million in 2004, and the flagship company of the RODRIGUEZ OREJUELA organization's financial and business empire.

In October 1995, simultaneous to the President's naming of Miguel and Gilberto RODRIGUEZ OREJUELA in the Annex to Executive Order 12978, OFAC named DROGAS LA REBAJA as an SDNT. As a result of this designation, it was cut-off from the U.S. financial system and Colombian banks closed DROGAS LA REBAJA's accounts, forcing the operation to work on a cash basis and limiting its dealings with other businesses.

By early July 1996, Wilkam RODRIGUEZ, the son of Miguel RODRIGUEZ OREJUELA, told a Colombian news magazine that their "businesses like DROGAS LA REBAJA ... may have to shut down." Consequently, in an effort to evade OFAC sanctions, DROGAS LA REBAJA was ostensibly sold to its 4,000 employees for approximately \$32 million under a worker's cooperative named COPSERVIR, which attempted to open local bank accounts and establish business ties with U.S. firms. In April 1997, OFAC also named COPSERVIR as an SDNT.

DROGAS LA REBAJA continued to try to evade U.S. sanctions. However, OFAC's on-going investigation of the RODRIGUEZ OREJUELA organization and DROGAS LA REBAJA, revealed a complex network of front companies throughout Colombia and neighboring countries, including Ecuador, Peru, Venezuela, Panama, Costa Rica, as well as financial fronts in the Bahamas, the British Virgin Islands, and Spain. OFAC targeted this large network of front companies in seven separate designation actions between 1999 and 2004, forcing closure of accounts and commercial dealings with these fronts in the United States and prompting similar actions elsewhere by non-U.S. parties.

In attempts to remove the sanctions, COPSERVIR filed complaints in both the United States and Colombian courts in 1998 and 2001, respectively. In the United States, the Federal District Court for the District of Columbia dismissed COPSERVIR's complaint in 1999 for lack of standing and failure to state a claim, and the court's decision was upheld by the U.S. Court of Appeals for the D.C. Circuit in 2000. *Cooperativa Multiactiva*, 221 F.3d 195. In 2003, the Colombian Constitutional Court ruled against COPSERVIR in its complaint, allowing banks to close accounts of SDNTs due to risk.

OFAC's actions over the years against DROGAS LA REBAJA and related fronts prompted the Colombian Government to initiate its own asset forfeiture case against the drug store chain, seizing it in September 2004. Shortly after the seizure, OFAC established a licensing policy that allows U.S. suppliers to engage in transactions with the drug store chain, thus preserving the company's commercial viability under Colombian Government control and ensuring the continued employment of 4,000 drug store workers.

OFAC designates a financial network of 46 new front companies associated with the RODRIGUEZ OREJUELA brothers and COSERVIR.

Colombian Constitutional Court rules in favor of the six Colombian banks, allowing them to continue to deny services to COSERVIR.

OFAC designates a widespread network of 23 companies from Colombia and five neighboring Latin American countries that are directly involved in the DRUGAS LA REBAJA pharmaceutical empire.

The United States Attorney's Office for the Southern District of Florida unseals Sept. 2003 indictment charging Gilberto and Miguel RODRIGUEZ OREJUELA with drug trafficking, money laundering and obstruction of justice.

The United States Attorney's Office for the Southern District of New York indicts Gilberto and Miguel RODRIGUEZ OREJUELA for money laundering and violations of OFAC sanctions.

OFAC designates 23 front companies in Colombia associated with COSERVIR.

Colombian Government seizes the drugstore chain DRUGAS LA REBAJA following asset forfeiture investigation.

OFAC issues a specific licensing policy allowing U.S. suppliers to engage in certain transactions with COSERVIR, FARMACOP, and COSMEPOP.

The Colombian Government extradites Gilberto RODRIGUEZ OREJUELA to the United States.

The Colombian Government extradites Miguel RODRIGUEZ OREJUELA to the United States.

Colombian Government seizes five companies following asset forfeiture investigations, including CREDIERBAJA.

The RODRIGUEZ OREJUELAS pled guilty to federal drug trafficking and money laundering charges and agreed to forfeiture in the amount of \$2.1 billion in assets.

February, March 2003

- Codisa (a.k.a. Cooperativa Multiactiva de Distribucion Y Servicios Administrativos)
- Administradora de Servicios Varios Calima S.A.
- Americana de Cosméticos S.A.
- Asistencia Profesional Especializada en Colombia Limitada (a.k.a. Asprecol Limitada)
- C Y S Medios E.U.
- Caja Solidaria (a.k.a. Cooperativa Multiactiva de Comercializacion Y Servicios)
- Colimex Ltda.
- Comercializadora Diglo Ltda.
- Comercializadora Intertel S.A.
- Contactel Comunicaciones S.A.
- Coopcrear (a.k.a. Cooperativa de Trabajo Asociado de Colombia)
- Cooperativa Mercantil Colombiana Comercio
- Cooperativa Multiactiva de Colombia Fomentamos (a.k.a. Fomentamos)
- Crasesonias E.U.
- Credisol (a.k.a. Cooperativa de Ahorro Y Credito Para el Progreso Social)
- Credivida
- Distribuciones Glomil Ltda.
- Distribuidora Sanar de Colombia S.A.
- Distinexport Comercializadora Internacional S.A. (a.k.a. Distinexport S.A.)
- Drocard S.A.
- Farma 3.000 Limitada
- Farma XXI Ltda.
- Fogensa S.A. (a.k.a. Formas Genericas Farmaceuticas S.A.)
- General de Negocios Y Administracion Ltda. (a.k.a. Genega Ltda.)
- Genéricos Especiales S.A. (a.k.a. Genes S.A.)
- Inmobiliaria Intasa Ltda.
- Inversiete S.A.
- Inversiones Doble Cero E.U.
- Inversiones Kanton Ltda.
- Inversiones Nuevo Dia E.U.
- Inversiones Sampla E.U.
- Inversiones Y Distribuciones A.M.M. Ltda.
- Latina de Cosméticos Y Distribuciones S.A.
- Materias Primas Y Suministros S.A. (a.k.a. Matsum S.A.)
- Productos Gato Y Cia. Ltda.
- Prosalud Y Bienestar S.A.
- Rentar Inmobiliaria S.A.
- Representaciones Y Distribuciones Huertas Y Asociados S.A.
- Seguwira del Valle E.U.
- Servicios Futura Limitada (a.k.a. Servifutura Ltda.)
- Servicios Myral E.U.
- Sharvet S.A.
- Sistemas Y Servicios Tecnicos Empresa Unipersonal (a.k.a. Sisetec)
- Supergen Ltda.
- Tecnicas Contables Y Administrativas (a.k.a. Teconta)
- Terapias Veterinaria Limitada (a.k.a. Tervet Ltda.)

October, 2003

- Agro Mascotas S.A. (a.k.a. Agrotodo)
- C.A.V.J. Corporation Ltda.
- Chamanin S.A.
- Comercializadora de Lineas Farmaceuticas S.A.
- Comercializadora de Productos Farmaceuticos Ltda.
- Cooperativa Mercantil Del Sur Ltda. (a.k.a. Coopmersur, a.k.a. Coopmersur)
- Cooperativa Multiactiva de Comercio, Drogueria Y Farmaceutica Drolarco (a.k.a. Drolarco)
- Cooperativa Multiactiva Distribuidora de Santander Coopdisan (a.k.a. Coopdisan)
- Distribuidora del Valle E.U.
- Farmafel E.U. (a.k.a. Telefarma E.U.)
- G.M.C. Grupo Maquilacion Colombiano
- Import Mapri Ltda.
- Incommerce S.A.
- Laboratorios Profarma Ltda.
- Laboratorios Y Comercializadora de Medicamentos Drobiam S.A. (a.k.a. Drobiam S.A.)
- Lemolar Ltda. (a.k.a. LMF Ltda.)
- Macrolarma S.A.
- Magen Ltda.
- Mapri de Colombia Ltda.
- Provida E.U. (a.k.a. Provida Laboratorio Clinico Y Patologia)
- Sistemas Integrales del Valle Ltda. (a.k.a. Sisva Ltda.)
- Vol Pharmacy Ltda.
- World Trade Ltda.

Located in: Barranquilla, Bogotá, Bucaramanga, Cali, Cucuta, Ibagué, Pasto

Offshore Companies

- C.A. V.J. Corporation
- Collarma Peru S.A.
- Espibena Comercializadora de Medicamentos Genericos S.A. (a.k.a. Espibena S.A.)
- Jomaga de Costa Rica S.A. (a.k.a. Interfarma S.A.)
- Latinoamericana de Farmacos S.A. (a.k.a. Latinfarmacos S.A.)
- Premier Sales S.A.

Located in: Costa Rica, Ecuador, Peru, Panama, Venezuela

2004

- Activar (a.k.a. Cooperativa de Trabajo Asociado Activar)
- Coopmucosta (a.k.a. Cooperativa Multiactiva de la Costa Coopmucosta Ltda.)
- Arca Distribuciones Ltda.
- Anias Esponosa Aries S.A. (a.k.a. Aries S.A.)
- Comudrogas Ltda. (a.k.a. Cooperativa Multiservicios de Drogas Ltda.)
- Coopifarma (a.k.a. Cooperativa Multiactiva de Comercializacion y Servicios de Colombia)
- Distogen Ltda. (a.k.a. Distribuidora de Medicamentos Distogen Ltda.)
- ExciPharma S.A. (a.k.a. ExciPharmes Farmaceuticos ExciPharma S.A.)
- Farmalider S.A.
- Farmavision Ltda. (a.k.a. Cooperativa Multiactiva de Distribucion Farmavision Ltda.)
- Farmedis Ltda.
- Giamx Ltda.
- Inversiones Ase Ltda.
- JYG Asesores Ltda.
- Latopharma (a.k.a. Cooperativa Multiactiva del Litoral)
- Megapharma Ltda. (Cooperativa Multiactiva de Distribucion Megapharma Ltda.; ComerCoop)
- Segecol Ltda.
- Servicios Logísticos y Marketing Ltda. (a.k.a. S.L.M.K. Ltda.)
- Soluciones Cooperativas
- Su Servicios Sociedad Ltda.
- Tecnovet Ltda. (a.k.a. Tecnicas Veterinarias Tecnovet Ltda.)
- Trimark Ltda.
- Willaro Ltda.

Located in: Barranquilla, Bogotá, Bucaramanga, Cali, Neiva

TYPE OF INDUSTRY

REGION				
Bogota	Sharper S.A.	Construcciones Avendano Gutierrez y Cia. Ltda. (a.k.a. Conage Ltda.) ⁶ Construcciones Colombo-Andinas Ltda. ⁷	Direccion Comercial Y Marketing Consultoria Empresa Unipersonal (a.k.a. D.C.M. Consultoria E.U.) ¹⁰	Claudia Pilar Rodriguez y Cia. S.C.S. ² Fiduser Ltda. ⁸ Inversiones Geele Ltda. (f.k.a. Ganadera Caqueta Ltda.) ⁴ Valores Corporativos S.A. (a.k.a. Valorcorp S.A.) ¹
Cali	Agricola Humiyari Ltda. ⁷ Comercializadora de Carnes del Pacifico Ltda. ¹ Export Cafe Ltda. ³	Andina de Construcciones S.A. (n.k.a. Interamericana de Construcciones S.A.) ¹ Constructora Central del Valle Ltda. (a.k.a. C.C.V. Ltda.) ² Constructora Gopeva Ltda. Constructora Tremi Ltda. ⁴ Interamericana de Construcciones S.A. (f.k.a. Andina de Construcciones S.A.) ³ Inversiones y Construcciones ABC S.A. (f.k.a. Inversiones Camino Real S.A.) ² Inversiones y Construcciones Atlas Ltda. (f.k.a. Inversiones Mompax Ltda.; f.k.a. Mompax Ltda.) ² Inversiones y Construcciones Cosmovalle Ltda. (f.k.a. Inversiones y Distribuciones Compax Ltda.; a.k.a. Compax Ltda.) ³ Reparaciones y Construcciones Ltda. (a.k.a. Reconstruye Ltda.) ⁷ Valores Mobiliarios de Occidente S.A.	Asesorias de Ingenieria Empresa Unipersonal (a.k.a. Asing E.U.) ¹⁰ Asesorias Economicas Munoz Santacoloma E.U. (a.k.a. Asems E.U.) ¹⁰ Asesorias Profesionales Especializadas en Negocios E.U. (a.k.a. Aspen E.U.) ¹⁰ Prospectiva Empresa Unipersonal (a.k.a. Prospectiva E.U.) ¹⁰	2000 Dose E.U. (a.k.a. Doma E.M.) ¹⁰ A G Representaciones Ltda. ¹⁴ Amparo Rodriguez de Gil y Cia S. en C. ³ Asesorias Cosmos Ltda. ³ Internacional de Divisas S.A. ¹⁰ Inversiones Ara Ltda. ¹ Inversiones Camino Real S.A. ² Inversiones Capital Ltda. ¹¹ Inversiones Jaer Ltda. ⁶ Inversiones La Sexta Ltda. ³ Inversiones Miguel Rodriguez e Hijo ¹ Inversiones Mompax Ltda. (a.k.a. Mompax Ltda.) ² Inversiones Mondragon y Cia. S.C.S. (f.k.a. Mariela de Rodriguez y Cia. S. en C.) ⁷ Inversiones Rodriguez Arbelaez y Cia S. en C. ³ Inversiones Rodriguez Moreno y Cia S. en C. ³ Inversiones Rodriguez Ramirez y Cia S.C.S.S. ² Inversiones San Jose Ltda. ⁶ Inversiones y Comercializadora Ramirez y Cia. Ltda. ⁸ Inversiones y Distribuciones Compax Ltda. (a.k.a. Compax Ltda.; n.k.a. Inversiones y Construcciones Cosmovalle Ltda.) ² M. Rodriguez O. y Cia S. en C. ³ Mariela de Rodriguez Y Cia S. en C. ⁷ Mariela Mondragon de R. y Cia. S. en C. ⁷ Marin Estrada y Cia. S. en C.S. ⁶ Muñoz y Rodriguez y Cia. Ltda. ³ Obursatiles S.A. (a.k.a. Operaciones Bursatiles S.A. Comisionista de Bolsa) ¹¹
Outside of Colombia				
Bahamas				Ardila-Marmolejo, Ltd (f.k.a. Huyo-Giraldo, Ltd) ¹² Galaviz Corporation Ltd. ¹⁴ Sepulveda-Iragorri Ltd. ¹³
British Virgin Islands				Kesman Overseas ¹³ Zaratan Corporation ¹¹
Florida (U.S.)				Ash Trading, Inc. ¹³ Internacional de Divisas S.A., LLC ¹¹ Sepulveda-Iragorri, Inc. ¹²
Panama				Farfalla Investment S.A. ¹⁴
Spain				

Footnotes indicate date of designation by OFAC.

(1) 21-Oct-1995	(8) 22-Feb-2000
(2) 29-Nov-1995	(9) 22-Dec-2000
(3) 5-Mar-1996	(10) 6-Feb-2003
(4) 17-Apr-1997	(11) 21-Mar-2003
(5) 30-Jul-1997	(12) 8-May-2003*
(6) 26-May-1998	(13) 17-Oct-2003
(7) 8-Jun-1999	(14) 17-Nov-2004

* Blocked Pending Investigation.

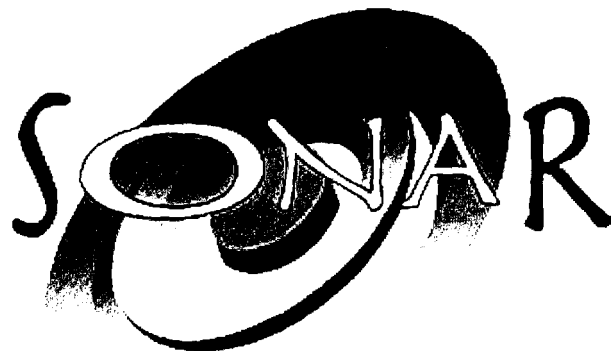
TYPE OF INDUSTRY

		Bogota
		<p>Consultoria Santafe E.U.¹⁰ Servicios de la Sabana E.U. (a.k.a. Serbana E.U.)⁸¹</p>
		Cali
<p>Color 89.5 FM Stereo (a.k.a. Radio Unidas FM S.A.)⁷ Corporacion Deportiva America (a.k.a. Club Deportiva America, Club America de Cali)⁷ Creaciones Deportivas Wellington Ltda.³ Farallones Stereo 91.5 FM (a.k.a. Radio Unidas FM S.A.)⁷ Radio Unidas FM S.A. (a.k.a. Color 89.5 FM Stereo and Farallones Stereo 91.5 FM)⁴ Revista del America Ltda. Sociedad Comercial y Deportiva Ltda.⁷ Sonar FM E.U. Dieter Murrle (a.k.a. Prisma Stereo 89.5 FM, Fiesta Stereo 91.5 FM)⁷ Sonar FM S.A. (f.k.a. Radio Unidas FM S.A., Color Stereo S.A., Color's S.A.)⁷</p>	<p>Alero S.A.¹⁴ Aspor del Pacifico y Cia. Ltda.³ Clinica Especializada del Valle S.A.¹¹ Comercializadora Orobanca S.A. (a.k.a. Socir S.A.)³ Comteco Ltda. (a.k.a. Comunicaciones Tecnicas de Colombia Limitada)⁶ Comunicacion Visual Ltda. (a.k.a. Comvis Ltda.)⁷ Contactel Comunicaciones S.A.⁷ D'Cache S.A.⁷ Derecho Integral y Cia. Ltda.³ Distribuidora Migil Cali S.A. (a.k.a. Migil; a.k.a. Distribuidora Migil Ltda.; a.k.a. Gran Cadena de Almacenes S.A.; a.k.a. Gracada! S.A.; n.k.a. Dism)¹ Fundacion Vivir Mejor (a.k.a. F.V.M.)¹⁴ Fundaser (a.k.a. Fundacion Para el Servicio del Ser Integral; a.k.a. Fundacion de Cali Para el Desarrollo Humano; a.k.a. Fundecali)¹³ Haydee de Muñoz y Cia. S. en C.³ Hielo Cristal y Refrigeracion Ltda. (a.k.a. Cuatro Frio)¹¹ Industrial de Gestion de Negocios E.U.⁷ M C M y Cia. Ltda.⁸ M.O.C. Echeverry Hermanos Ltda.⁷ Maxitiendas Todo en Uno⁴ Media Marketing E.U.¹⁰ Occidental Comunicaciones Ltda.⁴ Parque Industrial Las Delicias Ltda.⁶ Producciones Carnaval del Norte y Compania Limitada⁸ Recitec Ltda.⁸ Representaciones Zatza Ltda.¹¹ Soraya y Haydee Ltda.⁷ Supertiendas La Rebaja (a.k.a. Distribuidora Migil Cali S.A.)² Tobogon⁴</p>	REGION
		Outside of Colombia
		Bahamas
		British Virgin Islands
		Florida (U.S.)
		Panama
		Spain
<p>Inversiones Carfeni, S.L.¹³ Inversiones Claupi S.L.¹⁰ Inversiones Espanolas Femcar S.L.¹⁰ Inversiones Inmobiliarias Valeria S.L.¹⁰ Jaromo Inversiones S.L.¹⁰ Valores Corporativos Espanoles S.L.¹⁰</p>	<p>2000-Dodge S.L.¹⁰ Café Andino S.L.¹⁰ CPV Sistemas Graficos S.L.¹⁰ Customer Networks S.L.¹⁰ Galeria de Portales, S.A.¹² Rodriguez Y Tolbanos S.A.¹⁰ Sociedad Inversora en Proyectos de Internet, S.A.¹³</p>	

DRŌGAS LA REBĀJA



CREDIREBAJA



In the late 1970s, Jose SANTACRUZ LONDOÑO was first arrested by U.S. authorities on drug charges. After being released, he continued his drug trafficking activities and by April 1980, he had become a Drug Enforcement Administration (“DEA”) fugitive. SANTACRUZ LONDOÑO was ultimately the subject of four U.S. federal indictments for drug trafficking and money laundering.

By 1990, Jose SANTACRUZ LONDOÑO was considered to be one of the highest ranking members of the Cali drug cartel leadership. He was also one of the most violent of the Cali drug cartel leaders—he was wanted for the 1989 assassination of the former governor of Antioquia, Colombia, Antonio Roldan Betancur, and ordered the 1992 slaying of a New York investigative journalist, Manuel de Dios Uname.

Although his talent rested in managing international cocaine transportation networks, his organization was also involved in drug production, wholesale distribution, money laundering, and playing a key role in the Cali drug cartel’s intelligence collection effort. SANTACRUZ LONDOÑO’s major U.S. wholesale cocaine distribution and money laundering operations centered around the New York City metropolitan area, but his organization also operated in Miami, Los Angeles, San Francisco, Houston, Las Vegas, and Chicago.

In June 1995, a federal grand jury in Miami, Florida issued a historic RICO indictment against the leaders of the Cali drug cartel, including Jose SANTACRUZ LONDOÑO, and charged the Cali drug cartel with the importation of 200,000 kilograms of cocaine and the laundering of \$2 billion from 1983 through 1995. On July 4, 1995, Jose SANTACRUZ LONDOÑO was arrested by Colombian authorities in Bogota.

On October 24, 1995, SANTACRUZ LONDOÑO was designated by the President in the Annex to E.O. 12978. OFAC subsequently designated 20 businesses and 11 individuals involved with the Jose SANTACRUZ LONDOÑO organization—almost all located in Cali, Colombia.

On January 11, 1996, Jose SANTACRUZ LONDOÑO escaped from La Picota prison in Bogota, Colombia. In March 1996, SANTACRUZ LONDOÑO was killed outside of Medellin, Colombia.

As is often the case, family members and associates of SANTACRUZ LONDOÑO attempted to preserve his organization’s existing assets by changing the names of already designated companies. OFAC followed these attempted evasions and in July 1997, OFAC designated an additional five front companies and five individuals acting for or on behalf of the SANTACRUZ LONDOÑO organization.

OFAC designations and economic sanctions played a key role in the commercial and financial isolation of the SANTACRUZ LONDOÑO businesses in Colombia, in publicly exposing the SANTACRUZ LONDOÑO organization, and in increasing Colombian law enforcement pressure targeting SANTACRUZ LONDOÑO's associates and financial assets:

SECTION 2

In October 2003, the Colombian Government proceeded with the forfeiture of 201 properties that were held in the name of two front companies designated by OFAC as SDNTs and controlled by Jose SANTACRUZ LONDOÑO and his family.

In April 2004, the Colombian Government announced that they had two ongoing asset forfeiture investigations against 644 properties of SANTACRUZ LONDOÑO. At the time of the announcement, the investigations had already resulted in the forfeiture of 295 of these properties.

In October 2005, the Colombian police seized 137 properties belonging to two front individuals for Jose SANTACRUZ LONDOÑO.

The SANTACRUZ LONDOÑO organization was seriously impaired as a result of Jose SANTACRUZ LONDOÑO's arrest, OFAC sanctions, Jose SANTACRUZ LONDOÑO's subsequent death, and the Colombian Government's subsequent seizure and forfeiture of the assets and companies belonging to the SANTACRUZ LONDOÑO organization, as recently as October 2005.

SANTACRUZ LONDOÑO ORGANIZATION



DECEASED

**Jose
SANTACRUZ LONDOÑO**

Deceased: 5-Mar-96
Aliases: "Chepe"
Date of Designation: 21-Oct-1995
POB: Colombia
DOB: 1-Oct-1943
Cedula Number: 14432230
Passport Number: AB149814
Indictments: The subject of 4 indictments in the U.S, including 1995 RICO indictment of Cali cartel in Southern District of Florida
Arrests/Convictions: Arrested by U.S authorities in the late 1970s. Arrested by Colombian authorities in Bogota on 4-Jul-1995 (Escaped 11-Jan-1996). Murdered in Mar-1996.

KEY FAMILY MEMBERS



**Amparo
CASTRO DE SANTACRUZ**
Designation Date: 21-Oct-1995
Relationship: Wife
Cedula: 38983611
DOB: 13-Jan-1948



**Ana Milena
SANTACRUZ CASTRO**
Designation Date: 21-Oct-1995
Relationship: Daughter
Cedula: 31929808
DOB: 31-Mar-1965

KEY BUSINESS ASSOCIATES



**Hector Fabio
BORRERO QUINTERO**
Designation Date: 21-Oct-1995
Cedula: 14945412
DOB: 10-Feb-1948



**Hugo
MAZUERO ERAZO**
Designation Date: 21-Oct-1995
Cedula: 2445590
DOB: 17-Jul-1936

TYPE OF INDUSTRY

BY REGION	Bogota				
	Bogota			Aureal Inmobiliaria Ltda. ¹	
	Cali				
	Cali	Cavedes Dileo y Cia S.C.S. ⁴ Caucalito Ltda. (f.k.a. Ganadera Ltda.; f.k.a. Ganaderia) ² Comercializacion y Financiacion de Automotores S.A (a.k.a. Comfiautos S.A.) ³ Construcciones Astro S.A. (f.k.a. Sociedad Constructora La Cascada S.A.; f.k.a. Constructora Cascada) ² Ganadera Ltda. (n.k.a. Caucalito Ltda) ¹ Grupo Santa Ltda. ¹ Hacienda La Novillera (a.k.a. Novillera Ganadera) ¹ Hacienda Sandrana (a.k.a. Sandrana; a.k.a. Sandrana Ganadera) ¹ Inmobiliaria Aurora Ltda. ¹	Inmobiliaria Samaria Ltda. & Cia. S. en C. (n.k.a. Negocios Los Sauces Ltda. y Cia S.C.S.) ¹ Intercreditos S.A. (a.k.a. Comercio Inversiones y Creditos Integral S.A.; a.k.a. Intercreditos Bogota, a.k.a. Intercreditos Cali.) ¹ Inversiones El Paso Ltda. y Cia S.C.S. (n.k.a. Miraluna Ltda y Cia. S.C.S.; f.k.a. Inversiones Negcagricola S.A.) ¹ Inversiones Integral Ltda. ³	Inversiones Integral y Cia S.C.A. ¹ Inversiones Santa Ltda. (f.n.a. Inversiones y Construcciones Santa Ltda.) ¹ Miraluna Ltda. (f.k.a. El Paso Ltda.) ³ Negocios Los Sauces Ltda. (f.k.a. Samaria Ltda.) ² Negocios Los Sauces Ltda. y Cia. S.C.S. (f.k.a. Inmobiliaria Samaria Ltda.) ¹ Prevencion y Analisis de Riesgos Previa S.A. (a.k.a. Previa S.A.) ¹ Samaria Arrendamiento ¹ Samaria Canas ¹ Samaria Intereses ¹ Samaria Ltda. (n.k.a. Negocios Los Sauces Ltda.) ¹	Samaria Tierras ¹ Sandrana Canas ¹ Sociedad Constructora La Cascada S.A. (n.k.a. Construcciones Astro S.A.; f.k.a. Constructora La Cascada S.A.) ¹ Urbanizaciones y Construcciones Ltda. de Cali ³

Footnotes indicate the date of designation by OFAC.

- (1) 21-Oct-1995
- (2) 30-Jul-1997
- (3) 8-Jun-1999
- (4) 7-Dec-2000

Helmer HERRERA BUITRAGO (a.k.a. "Pacho" HERRERA), considered to be one of the highest ranking members of the Cali drug cartel leadership, started his criminal career selling relatively small amounts of cocaine in New York where he was arrested in the 1970s. By the early 1980s, Pacho HERRERA personally directed cocaine distribution and money laundering activities in the New York City area on behalf of the Gilberto and Miguel RODRIGUEZ OREJUELA organization. By 1990, Pacho HERRERA had established his own family-run cocaine trafficking operations and had become a major supplier of cocaine for both the New York and South Florida illicit markets. Pacho HERRERA was the subject of two federal indictments for drug trafficking issued by the U.S. Attorney's Office for the Eastern District of New York.

In June 1995, a federal grand jury in Miami, Florida issued a historic RICO indictment against the leaders of the Cali drug cartel, including Pacho HERRERA, and charged the Cali drug cartel with the importation of 200,000 kilograms of cocaine and the laundering of \$2 billion from 1983 through 1995.

On October 21, 1995, Helmer HERRERA BUITRAGO was named an SDNT principal individual by the President in the Annex to Executive Order 12978 along with three other leaders of Colombia's Cali drug cartel. On March 5, 1996, OFAC designated 19 companies and an additional 69 individuals acting for or on behalf of Pacho HERRERA.

In September 1996, Pacho HERRERA surrendered to Colombian authorities and was incarcerated.

During 1997 in three separate actions, an additional 24 entities and 58 individuals were designated by OFAC as fronts for the HERRERA BUITRAGO organization, which Pacho HERRERA continued to run from his Colombian prison cell.

In November 1998, Pacho HERRERA BUITRAGO was murdered in a Colombian prison by rival drug cartel leaders.

Family members and associates of HERRERA BUITRAGO attempted to preserve the organization's existing assets by restructuring or changing the names of companies designated since March 1996. OFAC followed these attempted evasions and in June 1999, OFAC designated an additional nine front companies acting for or on behalf of the HERRERA BUITRAGO organization.

The OFAC designations and economic sanctions played a key role in the commercial and financial isolation of the HERRERA BUITRAGO businesses in Colombia, in helping publicly expose

the HERRERA BUITRAGO organization, and in increased Colombian law enforcement pressure targeting HERRERA BUITRAGO's associates and financial assets. Multiple companies, including many of those designated by OFAC, and other properties have been seized by Colombian authorities and are pending forfeiture. For example:

SECTION 2

In November 2003, a Cali judge ordered the forfeiture of 1,256 Pacho HERRERA properties, including apartments, ranches, warehouses, and commercial real estate, which were estimated by Colombian authorities to be worth over \$80 million.

In September 2005, Colombian authorities seized 411 additional Pacho HERRERA properties, estimated to be worth more than \$14 million.

In May 2006, two front persons for Pacho HERRERA were being prosecuted in Colombia for unexplained income generated between 1998 and 2000 through their company, designated by OFAC as a Pacho HERRERA front in 1997.

The HERRERA BUITRAGO organization was seriously impaired as a result of OFAC's sanctions since March 1996, Pacho HERRERA's incarceration in September 1996, his subsequent death in prison in November 1998, the Colombian Government's subsequent seizure and forfeiture of the assets and companies belonging to the HERRERA BUITRAGO organization, and criminal prosecution of HERRERA BUITRAGO associates, as recently as May 2006.

HERRERA BUITRAGO ORGANIZATION



DECEASED

**Helmer
HERRERA BUITRAGO**

Deceased: 1998 (Murdered in prison)
Aliases: "Pacho"

Date of Designation: 21-Oct-1995

POB: Colombia

DOB: 24-Aug-1951

Cedula Number: 16247821

Passport Number: J287011

Indictments: Subject of two federal indictments for drug trafficking in the Eastern District of New York; 1995 RICO indictment of Cali drug cartel in Southern District of Florida.

Arrests/Convictions: Arrested by U.S. authorities in New York in 1975 and 1979. On 1-Sept-1996, surrendered to Colombian authorities. Remained incarcerated until murdered in prison in Nov-1998.

KEY FAMILY MEMBERS



**Luz Mery
BUITRAGO DE HERRERA**

Designation Date: 5-Mar-1996

Relationship: Mother

Cedula: 29641219

DOB: 24-Aug-1924



**Stella
HERRERA BUITRAGO**

Designation Date: 5-Mar-1996

Relationship: Sister

Cedula: 31143871

DOB: 7-Oct-1953



**Sulay
HERRERA BUITRAGO**

Designation Date: 5-Mar-1996

Relationship: Sister

Cedula: 31176167

DOB: 27-Nov-1967



**William
HERRERA BUITRAGO**

Designation Date: 15-Jan-1997

Relationship: Brother

Cedula: 16716887

DOB: 29-Nov-1964



**Alvaro
HERRERA BUITRAGO**

Designation Date: 5-Mar-1996

Relationship: Brother

Cedula: 16258303

DOB: 10-Oct-1955



**Nubla
BUITRAGO MARIN**

Designation Date: 5-Mar-1996

Relationship: Aunt

Cedula: 31132922

DOB: 5-Apr-1948

KEY BUSINESS ASSOCIATES



**Phanor
ARIZABALETA ARZAYUS**

Designation Date: 15-Jan-1997

Cedula: 2879530

DOB: 12-May-1938



**Juan Carlos
MONTAYA MARTINEZ**

Designation Date: 15-Jan-1997

Cedula: 16801475

DOB: 11-Oct-1966



**Ricardo Jose
LINAREZ REYES**

Designation Date: 5-Mar-1996

Cedula: 14440139

DOB: 8-Mar-1955



**Rafael Alberto
CULZAT LUGSIR**

Designation Date: 15-Jan-1997

Cedula: 14962523

DOB: 23-Oct-1940



**Jose Isidro
JAIMES RIVERA**

Designation Date: 5-Mar-1996

Cedula: 10090006

DOB: 7-Nov-1949



**Delia Nhora
RAMIREZ CORTES**

Designation Date: 5-Mar-1996

Cedula: 38943729

DOB: 20-Jan-1959

TYPE OF INDUSTRY

BY REGION

Central Colombia

Pereira

Colombiana de Cerdos Ltda.
(a.k.a. Colcerdos Ltda.)¹
Comercializadora de Carnes
Ltda. (a.k.a. Comecarnes
Ltda.)⁶
Matadero Metrojolitano Ltda

Valle del Cauca

Palmira

Valle de Oro S.A.²

Cali

Cali

Agropecuaria Betania Ltda
(n.k.a. Valladares Ltda.)¹
Agropecuaria La Robleada
S.A. (n.k.a. Manaure S.A.)²
Agropecuaria y Reforestadora
Herrebe Ltda (n.k.a.
Inversiones Geminis S.A.)¹
Criadero de Pollos El Rosal
S.A. (f.k.a. Industria Avicola
Palmaseca S.A.)⁴
Ganaderias del Valle S.A.²
Industria Avicola Palmaseca
S.A. (n.k.a. Criadero de
Pollos El Rosal S.A.)¹
Industria Maderera Arca
Ltda.²
Inversiones Agricolas
Avicolas y Ganaderas La
Carmelita Ltda.²
Inversiones Geminis S.A.
(f.k.a. Agropecuaria y Re-
forestadora Herrebe Ltda.)¹
Inversiones y Construc-
ciones Valle S.A. (a.k.a.
Incovalle S.A.)¹
Manaure S.A. (f.k.a. Agro-
pecuaria La Robleada S.A.)²
Mercavicola S.A.²
Procesadora de Pollos Su-
perior S.A. (f.k.a. Comercial-
izadora Internacional Valle
de Oro S.A.)²
Prohuevo de Colombia
Ltda.²
Valladares Ltda (f.k.a. Agro-
pecuaria Betania Ltda.)¹

Concretos Cali S.A.¹
Constructora Dimisa S.A.¹
Constructora El Nogal S.A.
(f.k.a. Construxito S.A., Cone
S.A.)⁵
Construxito S.A. (a.k.a. Cone
S.A.)¹
Construvida S.A.²
Distribuidora de Elementos
Para La Construccion S.A.
(a.k.a. D'elcon S.A.)²
Sociedad Constructora y
Administradora del Valle Ltda.
(a.k.a. Socovalle Ltda.)¹

Adminstracion Inmobili-
aria Bolivar S.A.¹
Alkala Asociados S.A.
(f.k.a. Invheresa S.A.)²
Compañia Adminis-
tradora de Vivienda
S.A. (f.k.a. Inversiones
Geminis S.A.)²
Consultoria Empresarial
Especializada Ltda.²
Inmobiliaria Bolivar
Ltda.²
Inmobiliaria U.M.V. S.A.¹
Inversiones Ario Ltda.²
Inversiones Betania
Ltda.¹
Inversiones Culzat Gue-
vara y Cia. S.C.S.²
Inversiones El Gran Cri-
sol Ltda. (f.k.a. W Herrera
y Cia. S. en C.)⁵
Inversiones El Peñon
S.A.¹
Inversiones Invervalle
S.A.¹
Inversiones Herrebe
Ltda.¹
Inversiones Villa Paz
S.A.²
Invheresa S.A.²
San Mateo S.A. (f.k.a. In-
versiones Betania Ltda.,
Inversiones Betania
S.A.)⁵
San Vicente S.A. (f.k.a.
Inversiones Invervalle
S.A., Invervalle S.A.)⁵
Servicios Inmobiliarios
Ltda.¹

Importadora y Comercializa-
dora Ltda. (a.k.a. Imcomer
Ltda.)²
Interventoria, Consultoria y
Estudios Ltda. (a.k.a. Incoes
Ltda.)²
Serviautos Uno A 1A Limitada
(a.k.a. Diagnosticentro La
Garantia)⁶
Valle Comunicaciones Ltda.
(a.k.a. Vallecom Ltda.)¹
Viajes Mercurio Ltda.¹

Bogota

Bogota

Constructora Altos del Retiro
Ltda.²

Inmobiliaria Gales Ltda

Comercial de Negocios
Claridad y Cia. S. en C.²
Comercializadora Experta y
Cia. S. en C.²

**Footnotes indicate the date of
designation by OFAC.**

- | | |
|-----------------|-----------------|
| (1) 5-Mar-1996 | (4) 30-Jul-1997 |
| (2) 15-Jan-1997 | (5) 8-Jun-1999 |
| (3) 17-Apr-1997 | (6) 22-Feb-2000 |

Since 1979, Joaquin Mario VALENCIA TRUJILLO and Guillermo VALENCIA TRUJILLO have been active in narcotics trafficking. The VALENCIA TRUJILLO organization has had a close relationship with other Cali drug cartel leaders, such as Helmer HERRERA BUITRAGO. Joaquin Mario VALENCIA TRUJILLO and his brother Guillermo VALENCIA TRUJILLO have also worked with other drug trafficking organizations led by Juan Carlos RAMIREZ ABADIA, and Ivan URDINOLA GRAJALES.

In August 2002, Joaquin Mario VALENCIA TRUJILLO was indicted by a federal grand jury in Middle District of Florida for allegedly moving more than 100 tons of cocaine, estimated to be as much as 20 percent of the cocaine entering the United States each year.

On January 31, 2003, Joaquin Mario VALENCIA TRUJILLO was arrested in Bogota, Colombia on U.S. drug trafficking and money laundering charges, based upon his control of a large-scale maritime drug trafficking operation centered in Colombia that threaded through Chile, Ecuador, Mexico, and Panama to the U.S. cities of Tampa, Miami, Houston, New York and Los Angeles.

On March 27, 2003, seven weeks after the arrest of Joaquin Mario VALENCIA TRUJILLO, OFAC designated Joaquin Mario and Guillermo VALENCIA TRUJILLO as SDNT principal individuals along with 28 individuals involved with supporting their financial network. In addition, 28 front companies in the VALENCIA TRUJILLO's financial network were named, including a prominent *paso fino* horse farm, *Criadero La Luisa*, an industrial paper manufacturer, *Unipapel S.A.*, a plastics company, *Geoplasticos S.A.*, a maritime services provider, *Gran Muelle S.A.*, and five financial firms, *Compania de Fomento Mercantil S.A.*, *Credisa S.A.*, *Finve S.A.*, *Gestora Mercantil S.A.*, and *Unidas S.A.*, all located in Colombia. OFAC worked closely with the U.S. Attorney's Office for the Middle District of Florida and "Operation Panama Express," a multi-agency drug task force based out of Tampa, Florida, in connection with the designation of Joaquin Mario VALENCIA TRUJILLO and his financial network.

In March 2004, Joaquin Mario VALENCIA TRUJILLO was extradited to the United States to stand trial. In October 2006, he was found guilty by a federal grand jury in Tampa of drug trafficking and money laundering charges. On February 1, 2007, the court sentenced Joaquin Mario VALENICA TRUJILLO to 40 years in prison and ordered him to forfeit \$110 million.

OFAC designations of March 27, 2003, helped identify the VALENCIA TRUJILLO business empire. The following are examples of how some members and entities of the VALENCIA TRUJILLO organization were isolated commercially:

Criadero La Luisa E.U., an internationally-recognized breeder of *paso fino* horses, maintained an average of approximately 300 horses, some of which are worth more than \$1 million. *Criadero La Luisa* sold highly-valued horse sperm for breeding to overseas clients, especially in the United States, which accounted for the majority of the horse sales and breeding service business. After the OFAC designation, these commercial and financial relationships with U.S. persons were shut down.

Unipapel S.A., a large industrial paper company located in the Yumbo area outside of Cali, Colombia was principally run by Guillermo VALENCIA TRUJILLO. *Unipapel S.A.* was forced to close after the OFAC action and was unsuccessful in its attempts to find a buyer.

The arrest in Colombia and subsequent OFAC designation of Joaquin Mario VALENCIA TRUJILLO shocked the public who knew him as a prominent breeder of *paso fino* horses and his wife, Luz Mery TRISTAN GIL, as a national skating champion in Colombia (see “VALENCIA TRUJILLO ORGANIZATION: EXAMPLES OF FAMILY MEMBERS INVOLVEMENT” box on the next page).

OFAC designations helped publicly expose the VALENCIA TRUJILLO organization and played a key role in increased Colombian law enforcement pressure targeting VALENCIA TRUJILLO's associates and financial assets. The Colombian Government has seized approximately \$25 million in assets of the VALENCIA TRUJILLO organization, including many of the companies already designated by OFAC. The Colombian Government is moving these seizures to forfeiture proceeding:

In February 2003, the Colombian Government seized the *paso fino* horse breeding farm *Criadero La Luisa* and more than 300 *paso finos* horses belonging to Joaquin Mario VALENCIA TRUJILLO. In addition, they seized his residence in Cali, Colombia (valued at over \$7 million) in which they discovered over 54 valuable works of art and armored vehicles.

In March 2003, the Colombian Government seized an additional 35 properties belonging to Joaquin Mario VALENCIA TRUJILLO, including 8 companies designated by OFAC.

In August 2003, Colombian authorities seized three large farms belonging to the VALENCIA TRUJILLO organization valued at approximately \$500 thousand.

In June 2005, Colombian prosecutors requested forfeiture of over \$13 million in previously seized assets belonging to Joaquin Mario VALENCIA TRUJILLO, including more than 300 *paso fino* horses, 10 companies, over 20 properties, vehicles and works of art located in the cities of Cali, Jamundi, Buenaventura, Candelaria, Calima and Yumbo in the Valle region of Colombia.

Prior to designation, Joaquin Mario VALENCIA TRUJILLO, by all appearances, was a prominent and respected businessman. However, his substantial business empire was created using illicit drug proceeds and was run by trusted family and friends (see underlined names below). These businesses burnished his reputation locally and internationally and gave him ready and immediate financial and commercial access around the world. He used this access in part to facilitate his drug trafficking operations. OFAC's designations not only helped dismantle his businesses, but also struck at these key managers of his businesses, who are now isolated in the Colombian business and financial communities. The following are examples of how he involved family and friends in his operations:

Unipapel S.A. Joaquin Mario and Guillermo VALENCIA TRUJILLO's main joint financial holdings centered around the company *Unipapel S.A.*, a large industrial paper company located in the Yumbo area outside of Cali, Colombia. *Unipapel S.A.* managed the payroll for a large security contingent that protected Joaquin Mario VALENCIA TRUJILLO's family and corporate network. Agueda VALENCIA TRUJILLO, Joaquin Mario's sister managed the day-to-day operations of *Unipapel S.A.* from Cali and is also involved in the corporate management of several other front companies.

Criadero La Luisa E.U. The crown jewel of Joaquin Mario VALENCIA TRUJILLO's financial investments is his *paso fino* horse breeding farm. Juan Pablo GAVIRIA PRICE, who has worked more than a decade for Joaquin Mario VALENCIA TRUJILLO, managed *Criadero La Luisa E.U.* Some reports suggest that the farm maintained about 300 horses. At the time, some of these horses were worth more than \$1 million a piece, and *Criadero La Luisa E.U.* sold highly-valued horse sperm for breeding to overseas clients.

Gestora Mercantil S.A. Carmen VALENCIA TRUJILLO, another sister of Joaquin Mario and Guillermo, managed the financial aspects of the real estate company *Gestora Mercantil S.A.*

Unidas S.A. Agueda, Adela, and Carmen VALENCIA, sisters of Mario VALENCIA, ran *Unidas S.A.*, a financial loan company. Mario VALENCIA provided the start-up money for this firm.

Gran Muelle S.A. Guillermo VALENCIA TRUJILLO ran this Buenaventura-based maritime agency.

Luz Mery Tristan E.U. Luz Mery TRISTAN GIL, Joaquin Mario VALENCIA TRUJILLO's wife and former roller skating star, owns *Luz Mery Tristan E.U.*, a roller skating promotion and merchandise company which includes the *Club Deportivo Luz Mery Tristan*, a large skating complex in Cali, Colombia.

VALENCIA TRUJILLO ORGANIZATION



**Joaquin Mario
VALENCIA TRUJILLO**

Aliases: "El Joven"
Date of Designation: 27-Mar-2003
POB: Cali, Valle, Colombia
DOB: 21-Aug-1957
Cedula Number: 16626888
Passport Number: AC030971
Indictments: Aug-2002: Middle District of Florida
Arrests/Convictions: 25-Jan-1979 arrested in Bogota, Colombia for drug trafficking. Arrested in Bogota, Colombia on 31-Jan-2003 pursuant to U.S federal indictment in the Middle District of Florida. Extradited Mar-2004 to the United States. Oct-2006, found guilty of drug trafficking and money laundering.



**Guillermo
VALENCIA TRUJILLO**

Aliases: None
Date of Designation: 27-Mar-03
POB: Cali, Valle, Colombia
Cedula Number: 14942909

KEY FAMILY MEMBERS



**Agueda
VALENCIA TRUJILLO**
 Designation Date: 27-Mar-2003
 Relationship: Sister
 Cedula: 38943524
 DOB: 10-Aug-1959



**Adela
VALENCIA TRUJILLO**
 Designation Date: 27-Mar-2003
 Relationship: Sister
 Cedula: 31277251
 DOB: 20-Oct-1954



**Carmen Emilia
VALENCIA TRUJILLO**
 Designation Date: 27-Mar-2003
 Relationship: Sister
 Cedula: 31244070
 DOB: 8-Apr-1952



**Luz Maria
TRISTAN GIL**
 Designation Date: 27-Mar-2003
 Relationship: Wife of Joaquin Mario Valencia
 Cedula: 31895852
 DOB: 1-Apr-1963



**Consuelo
CASTANO CASTANO**
 Designation Date: 27-Mar-2003
 Relationship: Wife of Guillermo Valencia
 Cedula: 29493435
 DOB: 25-Feb-1951



**Alvaro
VICTORIA CASTANO**
 Designation Date: 27-Mar-2003
 Relationship: Brother-in-law
 Cedula: 14933828

KEY BUSINESS ASSOCIATES



**Jose Freddy
MAFLA POLO**
 Designation Date: 27-Mar-2003
 Cedula: 16689935



**Juan Pablo
GAVIRIA PRICE**
 Designation Date: 27-Mar-2003
 Cedula: 16639081
 DOB: 9-Jul-1960



**Fabio Herman
FRANCO VALENCIA**
 Designation Date: 27-Mar-2003
 Cedula: 6076743
 DOB: 6-Dec-1940



**Freddy
RIVERA ZAPATA**
 Designation Date: 27-Mar-2003
 Cedula: 16602963



**Gonzalo
CALDERON COLLAZOS**
 Designation Date: 27-Mar-2003
 Cedula: 14989778
 DOB: 29-Sept-1952



**Sonia
AGUILAR BERNAL**
 Designation Date: 27-Mar-2003
 Cedula: 31988264

TYPE OF INDUSTRY

BY REGION	North Coast					
	Santa Marta	Bananera Agricola S.A.				
	Bogota					
			Finve S.A. (f.k.a. Financiera de Inversiones Ltda.)		Todobolsas y Colsobres (f.k.a. Rodriguez Carreno Ltda. Todo Bolsas y Colsobres)	Cia. Minera Dapa S.A. Servicios Aereo de Santander E.U. (a.k.a. S.A.S. E.U.)
	Cali					
		Criadero La Luisa E.U. (f.k.a. Industria Agropecuaria Santa Elena Ltda.) Granja La Sierra Ltda.	Compania de Fomento Mercantil S.A. Credisa S.A. (f.k.a. Comercializadora Automotriz S.A.) Gestora Mercantil S.A. J. Freddy Mafía y Cia. S.C.S. Unidas S.A.		Cia. Andina de Empaques Ltda. (a.k.a. Coempaques Ltda.) Geoplasticos S.A. (f.k.a. Colombiana de Bolsas S.A.) Occidental de Papeles Ltda. (a.k.a. Occipapel Ltda.)	Constructora Pynzar Ltda. Luz Mery Tristan E.U. (a.k.a. Club Deportivo Luz Mery Tristan World Class) Mira E.U. Novapinski Ltda. Pyza E.U.
	Valle de Cauca					
	Buenaventura			Dragados y Muelles Gaviota Ltda. Gran Muelle S.A. Trinidad Ltda. y Cia. S.C.S.		
	Yumbo				Bolsak E.U. (a.k.a. Bolsak S.A.) Unipapel S.A.	
	Southwestern Colombia					
Puerto Tejada					Construcciones Progreso del Puerto S.A. (a.k.a. Conpuerto S.A.) Parque Industrial Progreso S.A.	
Popayan				Valor Ltda. S.C.S.		

All Designated by OFAC as SDNTs on 27-Mar-2003.





40 MAP OF COLOMBIA *Cities in **bold** mark locations of North Valle drug cartel businesses.*

The North Valle drug cartel, so named because its leaders are from the northern part of the Valle del Cauca region in Colombia, is considered one of Colombia's most powerful cocaine trafficking organizations. U.S. and Colombian law enforcement have investigated the assets of Colombia's North Valle drug cartel since the early 1990s. It began as a splinter group of the Cali drug cartel following the arrest and surrender of several Cali drug cartel leaders in the mid-1990s. The North Valle drug cartel has now overshadowed the Cali drug cartel. The North Valle drug cartel uses brutality and violence to further its goals. Members of the drug cartel have murdered rival drug traffickers, buyers who failed to pay for cocaine, and drug cartel members whose loyalty was suspect. Today, the North Valle drug cartel is a loose confederation of various drug trafficking families. SECTION 3

The North Valle drug cartel's criminal activities led to a May 2004 U.S. federal RICO indictment against its leaders in the U.S. District Court for the District of Columbia. The 2004 RICO indictment claims that the North Valle drug cartel is responsible for one-third to one-half of the cocaine that reaches the shores of the United States. According to the indictment, the cartel worked together with various Colombian drug transportation specialists to transport multi-ton loads of cocaine from Peru, Colombia, and other locations within South America to Colombia. From Colombia, they shipped the cocaine loads to Mexico via speed boats, fishing vessels, and other maritime conveyances for ultimate delivery to the United States. Since 1990, the North Valle drug cartel has been able to export more than one million pounds of cocaine worth more than \$10 billion to the United States via Mexico.

In order to protect its distribution routes and cocaine laboratories, the drug cartel employs the services of the *Autodefensas Unidas de Colombia* ("AUC"),¹¹ a paramilitary group in Colombia that has been listed as a Foreign Terrorist Organization by the U.S. Department of State and a Tier I drug kingpin by the President pursuant to the Foreign Narcotics Kingpin Designation Act. The AUC also provides personal protection for North Valle drug cartel members and associates.

OFAC investigations in recent years have documented the extensive network of agricultural, aviation, cattle, commercial fruit production, investment, mining, pharmaceutical, and retail companies set up by North Valle drug cartel leaders and their front individuals.

In the 1980s, Ivan URDINOLA GRAJALES became involved in narcotics trafficking. By 1989, Ivan URDINOLA GRAJALES was managing a major drug trafficking operation that initially focused on cocaine, but would eventually include heroin.

The URDINOLA GRAJALES organization was associated with the groups that would become known as the North Valle drug cartel. With Ivan at the helm, the URDINOLA GRAJALES organization increased its power through violence and close ties to other powerful traffickers from the Valle del Cauca region. For example, Ivan URDINOLA GRAJALES was married to Lorena HENAO MONTOYA, the sister of SDNT principal individual Arcangel de Jesus HENAO MONTOYA.

In 1991, Ivan URDINOLA GRAJALES was indicted on drug trafficking charges in the Southern District of Florida. Julio Fabio URDINOLA GRAJALES, Ivan's brother, was also a significant drug trafficker twice indicted on drug trafficking charges in the Southern District of Florida in the early 1990s. Colombian authorities arrested Ivan URDINOLA GRAJALES in April 1992. Julio Fabio URDINOLA GRAJALES surrendered to Colombian authorities in 1994. However, they continued to control their organization from prison.

Although, Julio Fabio URDINOLA GRAJALES, who confessed to drug trafficking, was sentenced to 17 ½ years prison in Colombia, he received a sentence reduction and was released in 1998.

On February 22, 2000, OFAC designated Ivan URDINOLA GRAJALES and Julio Fabio URDINOLA GRAJALES as SDNT principal individuals, along with two associated individuals, including Lorena HENAO MONTOYA, Ivan URDINOLA's wife, and six companies.

In February 2002, Ivan URDINOLA GRAJALES died in a Colombian prison. His brother, Julio Fabio URDINOLA GRAJALES, was murdered in October 2004 in Bogota, Colombia.

On May 11, 2005, OFAC designated a group of companies associated with the GRAJALES LEMOS organization that had close ties with Lorena HENAO MONTOYA.

OFAC designations and economic sanctions have played a key role in financially isolating the URDINOLA GRAJALES businesses, in publicly exposing the URDINOLA GRAJALES organization, and in increased Colombian law enforcement pressure targeting URDINOLA GRAJALES' associates and financial assets:

In April 2001, a little more than a year after the OFAC designation of Ivan URDINOLA

GRAJALES and his organization, a major Colombian daily reported the Colombian Attorney General's office initiated an asset forfeiture case against Ivan URDINOLA GRAJALES and seized five of the six companies designated in 2000 and 116 of his other properties and holdings.

In January 2005, Lorena HENAO MONTOYA, an SDNT individual, pled guilty to bribing Colombian officials charged with seizing the assets of her deceased husband Ivan URDINOLA GRAJALES, who had been named as an SDNT principal in February 2000. She was sentenced by a Bogota judge to a prison term of four years and nine months, which she is currently serving.

SECTION 3

In May 2005, OFAC designated Raul Alberto GRAJALES LEMOS, a cousin of Ivan URDINOLA GRAJALES. It was discovered that in the 1990s Ivan URDINOLA GRAJALES obtained silent ownership of agricultural companies, which were managed by the indicted trafficker Raul Alberto GRAJALES LEMOS. Lorena HENAO MONTOYA inherited these companies following Ivan's death. Approximately one month after the designation, Colombian authorities seized these agricultural companies, which were estimated to be worth more than \$100 million.

In May 2005, Raul Alberto GRAJALES LEMOS was arrested by Colombian authorities on charges of money laundering related to the URDINOLA GRAJALES organization.

The URDINOLA GRAJALES organization was seriously impaired as a result of OFAC's sanctions, Ivan URDINOLA's death, the death of his brother Fabio URDINOLA, and the Colombian Government's subsequent seizure and forfeiture of assets and companies belonging to the URDINOLA GRAJALES organization.

URDINOLA GRAJALES ORGANIZATION



DECEASED

**Jairo Ivan
URDINOLA GRAJALES**

Deceased: Feb-2002
Date of Designation: 22-Feb-2000
POB: Colombia
DOB: 1-Dec-1960
Cedula Number: 94190353
Passport Number: AD129003
Indictments: 9-Aug-1991 by U.S. Southern District of Florida
Arrests/Convictions: Arrested by Colombian Police on 26-Apr-1992. Remained incarcerated until his death in Feb-2002.



DECEASED

**Julio Fabio
URDINOLA GRAJALES**

Julio Fabio URDINOLA GRAJALES
Deceased: 2004
Date of Designation: 22-Feb-2000
POB: Colombia
Cedula Number: 16801454
Indictments: 30-Oct-1992 and 13-Aug-1993 by U.S. Southern District of Florida
Arrests/Convictions: Surrendered to Colombian authorities in 1994. Released from Colombian prison in 1998. Murdered in Bogota, Colombia, Oct-2004.

KEY FAMILY MEMBERS



**Lorena
HENAO MONTOYA**
Designation Date: 22-Feb-2000
Relationship: Widow of Ivan Urdinola Grajales
Cedula: 31981533
DOB: 9-Oct-1968

KEY BUSINESS ASSOCIATES



**Sonia
TREJOS AGUILAR**
Designation Date: 22-Feb-2000
Cedula: 66675927



**Melba
TREJOS AGUILAR**
Designation Date: 11-May-2005
Cedula: 29991503

TYPE OF INDUSTRY

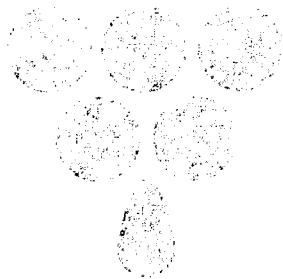
BY REGION	Valle del Cauca			
	La Union	Casa Grajales S.A. ² Frutas Exoticas Colombianos S.A. (a.k.a. Frexco S.A.) Grajales S.A. ²		Los Vinedos De Getsemani S.A. (a.k.a. Hotel Lost Vinedos; a.k.a. Valle Lindo Hostal Restaurante) ²
	Tulua			Inversiones Aguila Ltda. ⁴ Inversiones Grame Ltda. ² Inversiones Los Posso Ltda. S.C.S. ² Inversiones Santa Cecilia S.C.S. ² Inversiones Santa Monica Ltda. ² Sociedad De Negocios San Augustin Ltda. ² Ibadan Ltda. ²
Cali				
Cali	Agroinversora Urdinola Henao y Cia. S.C.S. ¹ Explotaciones Agricolas y Ganaderas La Lorena S.C.S. ¹ Industrias Agropecuarias del valle Ltda. ¹ Inversiones El Eden S.C.S. ¹	Constructora e Inmobiliaria Urvalle Cia. Ltda. ¹ Constructora Universal Ltda. ¹		Panamericana Ltda. ²

Footnotes indicate date of designation by OFAC.

(1) 22-Feb-2000

(2) 11-May-2005

Grajales





PRESS ROOM

May 2, 2007
HP-387

**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, May 4, 2007, 10:00 a.m. (EDT)

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 frances.anderson@do.treas.gov with the following information: name, Social Security number and date of birth.



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May 4, 2007
HP-388

Treasury Economic Update 5.4.07

"We see hopeful signs that growth will pick up through the year; business investment looks set to rebound, consumer spending is sustaining growth and strong global activity should propel exports going forward."

REPORTS

- Treasury Economic Update 5.4.07



TREASURY ECONOMIC UPDATE 5.4.07

"We see hopeful signs that growth will pick up through the year; business investment looks set to rebound, consumer spending is sustaining growth and strong global activity should propel exports going forward."

Assistant Secretary Phillip Swagel, May 4, 2007

Job Creation Continues:

Job Growth: 88,000 new jobs were gained in April and nearly 2 million new jobs have been created over the past 12 months. The United States has added 7.9 million jobs since August 2003 – more new jobs than all the other major industrialized countries combined. Our economy has seen job gains for 44 straight months. Employment has increased in 47 states within the past year. *(Last updated: May 4, 2007)*

Low Unemployment: The unemployment rate of 4.5 percent is among the lowest reading in six years. Unemployment rates have decreased or held steady in 36 states and the District of Columbia over the past year. *(Last updated: May 4, 2007)*

The U.S. Economy is in Transition to a Sustainable Growth Path:

Economic Growth: Real GDP growth was 1.3 percent in the first quarter of 2007, and 2.1 percent over the past 4 quarters. *(Last updated: April 27, 2007)*

Household Spending: Consumer spending—up 3.8 percent in Q1—remains strong and is expected to provide a solid foundation for faster economic activity in the rest of 2007. *(Last updated: April 27, 2007)*

Business Investment: Capital investment turned up in the 1st quarter, boosted by outlays for commercial structures and equipment and software. *(Last updated: April 27, 2007)*

Tax Revenues: Tax receipts rose 11.8 percent in fiscal year 2006 (FY06) on top of FY05's 14.6 percent increase. Receipts have grown another 8 percent so far in FY07. *(Last updated: April 11, 2007)*

Steady Productivity: Labor productivity has grown at an annual rate of 2.8 percent since the business cycle peak in 2001Q1. *(Last updated: May 3, 2007)*

Americans are Keeping More of Their Hard-Earned Money:

Real Wages Increased 1.3 percent Over the Past 12 Months (ending in March). This translates into an additional \$450 above inflation for the average full-time production worker.

Real After-Tax Income Per Person has Risen 10 percent - 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



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May 4, 2007
HP-389

Notice on Press Credentials for SED

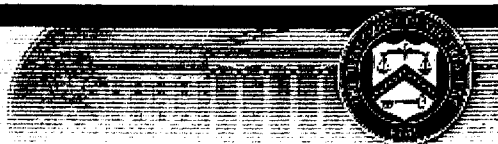
Members of the media seeking press credentials for the second Cabinet level meeting of the U.S. – China Strategic Economic Dialogue (SED) must complete and submit the attached form and a digital photo to the Treasury Department's Office of Public Affairs at press@do.treas.gov or fax to (202) 622-1999 no later than Friday, May 11, 2007. Incomplete applications or applications submitted after this date will not be considered for credentials.

The second session of the U.S. – China SED is scheduled to take place in Washington, DC on May 22 – 24, 2007. A schedule of open press events will be released in the coming weeks.

REPORTS

- SED PRESS REG FORM

PRESS ROOM



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May 4, 2007
hp-390

Report Highlights OFAC's Success in Combating Narcotics Traffickers

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today released the *Impact Report on Economic Sanctions Against Colombian Drug Cartels*, which reviews OFAC's highly effective efforts to expose and isolate significant Colombian narcotics traffickers and their associates and to disrupt and dismantle their business empires.

"Since its inception in 1995, the Specially Designated Narcotics Traffickers (SDNT) program has been extremely successful in disrupting the financial operations of Colombian drug lords and stripping the cartels of their ill-gotten gains," said OFAC Director Adam J. Szubin.

The *Impact Report* details the illicit activities of each of the 22 Colombian drug cartel principals and organizations that have been targeted by OFAC. The report also focuses on specific highlights of the SDNT program, including the historic September 2006 plea agreement between the United States Government and the leaders of Colombia's infamous Cali drug cartel, Miguel and Gilberto Rodriguez Orejuela. This sanctions program was established by Executive Order 12978.

"We believe the report will be valuable to the Congress and law enforcement agencies, both domestic and abroad. The report will also inform foreign governments, fostering closer coordination in fighting the scourge of narcotics trafficking," Szubin continued.

The *Impact Report on Economic Sanctions Against Colombian Drug Cartels*, as well as additional information about the SDNT program, can be accessed through the following link:
http://www.treas.gov/offices/enforcement/ofac/reports/narco_impact_report_05042007.pdf.



PRESS ROOM

May 7, 2007
HP-391

**Statement by Deputy Assistant Secretary for Development
Finance and Debt Kenneth Peel at the 40th Annual
Board of Governors Meeting of the Asian Development Bank**

Kyoto, Japan –I am honored to represent the United States at the 40th Annual Meeting of the Asian Development Bank (ADB). On behalf of Treasury Secretary Paulson, I would like to extend our gratitude to our gracious hosts – Japanese Finance Minister Omi and ADB's President Kuroda.

It is right that we are holding this 40th annual meeting in Kyoto, the magnificent historic capital of the country that has given so much to this vital institution.

First, allow me to express my deep gratitude for the commitment, expertise and hard work of Bank staff. I would particularly like to highlight their work on economic revitalization and reconstruction of Afghanistan, rapid and appropriate response to natural disasters and to the prevention and control of infectious diseases, assistance in the reform of local financial systems and capital markets and assistance in combating money laundering and human trafficking. This gives us great confidence that they can meet the challenges ahead.

And the challenges are considerable but they are challenges partly born in the Bank's own accomplishments.

As we assemble here, Asian economies continue to record remarkable economic performance, which in turn is creating more economic opportunity and higher standards of living for more people, contributing to a significant reduction in poverty. Just between 1990 and 2004 poverty in East Asia declined from 29% to 8%. And during this same period across the entire Asia and Pacific region, extreme poverty has dropped from 35% to 19%.

More and more countries in the region are not only on a path to graduating from concessional borrowing, but from MDB borrowing altogether. And some are stepping confidently across the next threshold and joining the ranks of donor nations.

In addition, the strong growth and low inflation of the last few years have come with an emergence of global imbalances that should be addressed so that rapid global growth can be sustained. Economic adjustment is a shared responsibility to improve global imbalances and economic development. Asian economies have a critical role to play in global economic adjustment by pursuing greater exchange rate flexibility, strengthening domestic demand, and reforming the financial sector.

Despite the encouraging trends I cited earlier, about half the world's most extreme poor still live in the region. The remarkable success of many countries sits alongside the continuing poverty of millions of people. These two parallel realities form the challenge we face in charting a strategic direction for the Bank in the years ahead.

The questions facing the Bank include: First, what is the continuing role for

the Bank in a region where many of its member countries enjoy the fruits of hard-won economic success, including ready access to private financial markets? Second, what can the Bank continue to offer to middle-income countries, consistent with its core mission of economic growth and poverty reduction? Third, what are the key challenges facing the region's poorest countries, and what are the Bank's comparative advantages in meeting those challenges? Fourth, how can the Bank differentiate itself from other development partners, including the World Bank, in a manner that makes the most efficient use of its capital, accumulated expertise and human resources? And fifth, what is the appropriate role for the Bank in fostering regional economic integration?

None of us can pretend that we have the answer to all of these questions today. But we will need the answers soon. As Asia continues its rapid development, the Asian Development Bank will face the most fundamental questions related to its first principles – not today, not next year, but certainly within the next decade or two. One way or another, the ADB will become a different institution from the one that has served it so well in its first 40 years.

As we consider those challenges, it is useful to return to some of the first principles that inspired the founding of this and the other multilateral development banks. Their most basic mission was, and is, to leverage the resources of the international community for countries that lacked access to affordable private capital, to help create jobs, economic growth and higher living standards for some of the world's most desperate poor. This should still be the central organizing principle for the Bank, and our decisions on the Bank's future directions and priorities should flow from it.

This means we should celebrate when countries no longer need the Bank to finance their development needs, not seek ways to artificially create incentives to lend to them. Instead, we should think of services the Bank might continue to provide on a transitional basis.

It also means that the Bank should focus on how it can best serve the poorer countries that continue to need its help. This means not trying to be all things to all countries, but instead identifying matches between the Bank's demonstrated capabilities and the critical development needs of the region. Certainly the ADB's private sector operations have demonstrated the Bank's expertise and ability to mobilize significant co-financing. The ADB should continue to support improvements in the region's investment climate and regulatory environment. At the same time, the ADB must ensure that its financing achieves development results, contributes genuine additionality, and catalyzes, rather than competes with, the private sector.

The United States also supports the Bank's work in developing local bond markets. Strong capital markets require several key components: strong property rights, robust supervisory regimes with clear and transparent rules, sound accounting standards, strong corporate governance, objective financial analysis and research, meaningful disclosure regimes, and independent credit rating agencies. The ADB can play an important role in fostering these practices and regulatory frameworks.

Modern, efficient, well-planned infrastructure is essential to private-sector led growth. This is already a primary focus of the Bank's work, and can become even more so. Public-private partnerships should be further developed to attract private investment in infrastructure. Infrastructure, of course, has a strong regional integration component, which the Bank is well placed to explore and develop.

While the Bank may also specialize in other areas, the Bank should identify and focus on a finite number of areas where it has a comparative advantage. And it should remain steadfast to its original mandate as an economic development institution -- not seek new mandates that stray from this mission. And when the private sector can take over – as it should and

as was always intended – the Bank should step aside and declare victory.

In all of its work, of course, the Bank needs to demonstrate accountability, transparency and results. While progress has been made in these areas in recent years, more effort is required to achieve the kind of results-based management that is needed. The institutional structure and culture of ADB should reflect the requirements of the results agenda by embracing a new incentive structure that rewards staff for delivering development impacts, not for simply increasing lending volumes; it's quality, not quantity, that counts most.

The Bank must also continue the fight for good governance. Much has been accomplished in attacking corruption in recent years through the implementation of the Bank's Governance and Anticorruption Action Plan. We urge the ADB to continue this work by doing more to mainstream governance improvements, address the risks of corruption in its programs, and engage with borrowing countries. Such steps would include cross-debarment and published lists of disqualified firms.

These are surely profound – even daunting – questions about the purpose and structure of the ADB in the years ahead. But we must not shirk from our responsibility to address and answer them. We owe it to the people of the region, to our citizens at home, and to the hard-working staff of the Bank. I look forward to tackling this challenge together. Thank you very much.



May 8, 2007
HP-392

**Secretary Paulson to Participate in Forum on
International Investment and Travel to St. Louis**

Treasury Secretary Henry M. Paulson, Jr. will moderate a forum discussion Thursday on the importance of an open economy and international investment for U.S. job creation and economic growth hosted by the Organization for International Investment and George Washington University's Elliott School of International Affairs.

On Friday, Secretary Paulson will travel to St. Louis where he will tour the facilities of two foreign-affiliated companies operating there to illustrate the importance of open investment in creating jobs and economic expansion in the U.S. At the first firm, bioMerieux, Secretary Paulson will tour the facilities and meet with staff. Paulson will then go to FKI Logistex to deliver remarks.

Who

Treasury Secretary Henry M. Paulson, Jr.
House Financial Services Committee Chairman Barney Frank
Thomas Friedman
Panasonic North America COO Joe Taylor
Mack Trucks President and CEO Paul Vikner
South Carolina Governor Mark Sanford

What

Panel Discussion on Leading the Global Economy: How an Open Economy and International Investment Create U.S. Jobs and Growth

When

Thursday, May 10, 2:30 p.m. EDT

Where

Jack Morton Auditorium
805 21st Street, NW
Washington, DC

Note

Media must pre-set by 2:00 p.m. and RSVP to James Clarke at jclarke@ofii.org.

Who

Treasury Secretary Henry M. Paulson, Jr.

What

Tour of bioMerieux

When

Friday, May 11, 10 a.m. (CDT)

Where

bioMerieux
595 Anglum Road

Hazelwood, Missouri

Note

This is a pooled photo event – media should contact Eileen Gilligan at (202) 622-2960 or Eileen.Gilligan@do.treas.gov for more information.

Who

Treasury Secretary Henry M. Paulson, Jr.

What

Remarks at FKI Logistex

When

Friday, May 11, 12:15 p.m. (CDT)

Where

FKI Logistex
9301 Olive Boulevard
St. Louis, Missouri



PRESS ROOM

May 8, 2007
2007-5-8-13-42-17-9779

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 \$66,339 million as of the end of that week, compared to \$66,850 million as of the end of the prior week.

I. Official U.S. Reserve Assets (in US millions)						
TOTAL	April 27, 2007			May 4, 2007		
	66,850			66,339		
	Euro	Yen	TOTAL	Euro	Yen	TOTAL
1. Foreign Currency Reserves ¹						
a. Securities	13,012	10,648	23,660	12,987	10,600	23,587
Of which, issuer headquartered in the U.S.			0			0
b. Total deposits with:						
b.i. Other central banks and BIS	13,021	5,192	18,213	12,994	5,167	18,161
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			4,896			4,542
3. Special Drawing Rights (SDRs) ²			9,040			9,008
4. Gold Stock ³			11,041			11,041
5. Other Reserve Assets			0			0

II. Predetermined Short-Term Drains on Foreign Currency Assets						
	April 27, 2007			May 4, 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						
	April 27, 2007			May 4, 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						

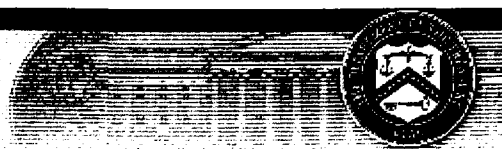
Notes:

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



May 8, 2007
HP-393

U.S. Treasury Deputy Secretary Kimmitt Statement on the E.U. Economics and Financial Affairs Council Conclusions on Hedge Funds

Washington, D.C. - The E.U. Economics and Financial Affairs Council, meeting in Brussels today, reached a consensus on the policy direction for the European Union regarding hedge funds and provided related guidance to the European Commission. U.S. Treasury Deputy Secretary Robert M. Kimmitt issued the following statement supporting the Council's conclusions:

"The Council's statement today underscores the significant progress this year advancing international work related to the hedge fund industry and in reaching a consensus on the appropriate path forward. Their conclusions will help ensure a productive discussion among the G-8 finance ministers in Potsdam this month.

"These findings demonstrate that the European Union and the United States share consistent approaches to monitoring these investment vehicles. In particular, the Council's conclusions demonstrate convergent views on the benefits of hedge funds in promoting efficient and dynamic financial markets and the important role all actors play promoting financial stability and protecting investors. This approach mirrors the philosophy of the Principles and Guidelines issued by the U.S. President's Working Group on Financial Markets in February."



PRESS ROOM

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May 9, 2007
HP-394

**Testimony of Treasury Deputy Assistant Secretary
Mark Sobel on Currency
Manipulation and its Affect on U.S. Businesses and Workers**

Thank you Chairman Levin, Chairman Gutierrez, Chairman Rush, Representative Herger, Representative Paul and Representative Stearns and members of the sub-committees, for the opportunity to appear today to discuss this important issue.

Treasury's Assessment of Exchange Rate Policies

As you know, twice a year the Department of the Treasury issues a Report to Congress on International and Exchange Rate Policies. This report, often called the "Foreign Exchange Report," is required by the Omnibus Trade and Competitiveness Act of 1988 (the "Act"). The report reviews economic and policy developments of important world economies and other economies with which the United States has a large trading relationship. The Act states that "the Secretary of the Treasury shall analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund, and consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade."

Treasury takes the preparation of this report very seriously. We know that it is read closely by members of Congress as well as the financial community, the general public, and foreign governments. We make every effort to ensure that we produce an accurate yet comprehensive report that incorporates analysis reflecting the realities of today's international monetary and financial systems. In developing our assessments, Treasury undertakes a careful review of major trading partners' exchange rate regimes and policies, the evolution of their external balance of payments positions, their accumulation of foreign exchange reserves, macroeconomic developments within their economies, and their responses to these developments in terms of monetary and financial developments and financial and exchange restrictions.

Treasury has made a concerted effort in recent years to broaden and improve the coverage and analytical rigor of the report. We have done so because of changing global circumstances since 1988, including profound technological change and globalization, which have enabled many more economies today to become systemically important from an economic and financial perspective. In addition, global capital flows have increased greatly since 1988. The interdependence of the United States with the world economy has increased, heightening our sensitivity to the impact of developments overseas.

In recent reports, therefore, Treasury has strengthened our coverage and analysis of global economic developments and the evolution of the U.S. balance of payments position by including a discussion of perspectives on interpreting U.S. current account developments and international capital flows. In this regard, we have discussed the shared international strategy for global adjustment and noted that given the large U.S. current account deficit, the counterpart to that deficit is inevitably to be found in large surpluses elsewhere in the world. We also have provided more extensive descriptions of macroeconomic and financial developments in many of the key countries of particular interest to the public.

Further, Treasury has also included a series of appendices on critical international monetary policy issues. In this regard, we began including a special appendix in which many variables and indicators are analyzed on a systematic basis to develop a better understanding of the currency policies of key countries. In this light, and given the inherent difficulties in defining currency manipulation for the purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade, we have examined a range of indicators that economists would typically look at when dealing with currency manipulation questions. We have analyzed a range of different combinations of indicators and weights in order to shed light on the judgments that we are asked to make. The numerical examples illustrate the sensitivity of the rankings to the weighting scheme chosen and also highlight the fact that, for an array of differing reasons, many countries throughout the world have large external surpluses.

Treasury also has made a special effort in the report, through additional appendices, to discuss important related topics. Recognizing that the International Monetary Fund allows members to choose their own exchange rate regime, we have discussed at length the advantages and disadvantages of various exchange rate regimes and, more specifically, fixed versus flexible exchange rates. In light of the vast accumulation of foreign exchange reserves by some countries, especially emerging markets, we have discussed the costs and benefits of reserve accumulation and some of the "rules of thumb" on what are thought to be prudent levels of reserves. And in light of the considerable attention being given to misaligned exchange rates, we have discussed some of the methodological problems involved in estimating equilibrium or fair value exchange rates.

Treasury staff also prepares informal papers, known as Occasional Papers (available at: www.treasury.gov/offices/international-affairs/occasional-paper-series/) on a number of other key international monetary policy issues. These staff papers are not statements of Administration or Treasury policy, but they shed light on these important issues. The question of currency misalignment was discussed in detail in a recent Treasury Occasional Paper (www.treasury.gov/offices/international-affairs/occasional-paper-series/docs/ExchangeRateModels.pdf). That paper reviewed many of the concepts of exchange rate equilibrium in use as well as many of the models used to estimate the over or under valuation of a currency. An important finding of the paper is the wide variance of views that exist with respect to misalignment, as well as the sensitivity of the results to various modeling assumptions. In fact, in some cases, depending on the price deflators used, currencies were found to be overvalued using one deflator but undervalued using another deflator. Another main message of the study is that, although the range of estimates can and often do vary considerably, it is possible to draw certain inferences about misalignment provided the results are drawn from a variety of models and the results are largely similar in magnitude and direction. This information must, however, be supplemented with assessments of other reasons why exchange rates, during relevant periods of time, might deviate from perceived equilibrium values.

Treasury reported to Congress, in March 2005, on the procedures and inherent difficulties involved in making designations pursuant to the Act. That report, entitled, "Report to the Committees on Appropriations on Clarification of Statutory Provisions Addressing Currency Manipulation," established that to identify exchange rate manipulation, standard macroeconomic and microeconomic analysis needed to be supplemented with certain indicators, including but not limited to: (1) measures of undervaluation; (2) protracted large scale intervention in one direction; (3) rapid foreign exchange reserve accumulation; (4) capital controls and payments restrictions; and (5) trade and current account balances. We have since incorporated much of this in one of the aforementioned appendices where I indicated the outcomes largely depend on weights assigned and combinations of indicators used. As since noted in Treasury's November 2005 Report, there is no mechanistic or formulaic approach in determining manipulation; a complete assessment requires additional analysis of the interactions among economic variables, specific factors affecting economies, and current policy formulation and implementation.

The March 2005 report also noted the role of "intent" in rendering judgments about designations pursuant to the Act. The language of the Act states that currency

manipulation must be undertaken "for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade." "Intent" of the country in question is a consideration as it is inherent in the language of the act. Determining intent behind the policy can be difficult to assess.

The methodology Treasury uses in examining the foreign exchange policies of foreign economies was also the subject of a review by the Government

Accountability Office (GAO) in April 2005. The GAO report¹¹¹ concluded that Treasury has complied with the requirements in the 1988 Trade Act. The GAO report made no recommendations, but did note that currency "manipulation" is a complex issue that it involves both country-specific and broader international economic factors. The report also considered the views of outside experts on whether the renminbi was undervalued, finding that the views varied widely, with many experts maintaining a view that the currency is significantly undervalued while others contending that undervaluation was not substantial or that estimating it was not possible. According to the GAO, even among experts who believe that China's currency to be undervalued, there was no consensus on how and when China should move to a more flexible exchange rate regime or whether capital account liberalization should be a part of that move.

Another key element of Treasury's strategy to ensure that countries pursue appropriate exchange rate policies is to encourage the International Monetary Fund (IMF), the world's only multilateral institution with a mandate for exchange rates, to improve its work on foreign exchange surveillance. Exchange rate manipulation to gain competitive advantage is inconsistent with the treaty obligations of the 185 member countries of the IMF. Treasury strongly supports IMF Managing Director Rodrigo de Rato's effort to update the IMF's thirty-year old operational rules for exchange rate surveillance.

We take very seriously our responsibilities to ensure that the Report to Congress on International Economic and Exchange Rate Policy is of high quality, topical, and thorough. We have been careful to be very clear about how we approach the issue of designations pursuant to the Act and our reasoning in specific cases.

China

As the exchange rate policy of China is of interest to the committee members, I will address it in more detail.

China's currency policy is an important issue in the economic relationship between our two countries. Although China abandoned its fixed exchange rate in July 2005 and the RMB has now appreciated against the U.S. dollar by a bit more than 7 percent, China does not yet have the currency policy we want it to have and that it needs. Secretary Paulson has stated that a major objective of his as Treasury Secretary will be to press the Chinese government to advance toward the goal of an RMB for which the value is freely set in a competitive marketplace, based on economic fundamentals. The Secretary and Treasury staff meets frequently with Chinese counterparts to press this issue.

The Secretary has laid out several key steps China must take to advance toward this goal, including: widening the band on daily exchange rate movement; reducing intervention; developing its capital market; and setting clear monetary policy targets to avoid inflation and increase confidence in the value of the Chinese RMB. These reforms will allow China to develop the market infrastructure it needs for a freely floating currency; we are committed to working towards those reforms. Although China has embraced currency flexibility as a policy goal, Chinese authorities are not moving quickly enough for the United States or the rest of the global community. And they are not moving quickly enough for China's own good. While we agree on China's broad reform agenda, China's leaders believe there is risk in moving too quickly. Secretary Paulson has told his Chinese counterparts repeatedly that the greater risk is in China moving too slowly. The Secretary will again emphasize this message during the upcoming meeting of the Strategic Economic Dialogue to take place here in Washington later this month. We hope that Chinese leaders at that time will have the benefit of meeting with Members of Congress to discuss the U.S.-

China economic relationship.

Treasury's foreign exchange report clearly states that China's cautious approach to exchange rate reform exacerbates distortions in its domestic economy and impedes the adjustment of international imbalances. With respect to determining whether or not China manipulates its currency as defined in the legislation, Treasury must take into consideration the intent of Chinese authorities. In the December 2006 Foreign Exchange Report, after careful analysis of China's economic and currency policies, Treasury did not find that China's policies are designed for the purposes of gaining unfair competitive advantage or preventing effective balance of payments adjustments. Treasury will continue to carefully analyze China's policies as we prepare future Reports.

While China's currency policy is critical to the United States and to China, currency movement alone will not significantly reduce China's trade surplus nor eliminate the distortions in the Chinese economy. China's trade surpluses are rooted in the structure of the Chinese economy and are not solely the result of currency policy. China needs to restructure its economy so that household consumption, rather than exports and excess investment, powers growth. Reform of China's financial system is also critically important for the rebalancing process, by providing Chinese households the means to insure themselves against major risks and finance expenditures like education. Better financial services will also help address many of the reasons why Chinese households save so much and can spend so little of their incomes. Vibrant domestic consumption is key to the welfare of the Chinese population and is the only way that China can grow without generating huge trade surpluses.

To be a responsible international stakeholder in the global economy, China needs to take swift and effective action to remedy these imbalances. This is both for the global economy and for China's own sake. Currency flexibility will enhance the ability of China's economic policy makers to use monetary policy to steer China's economy towards steady and sustained growth. Rebalancing the structure of economic activity in China will help to alleviate global economic imbalances and will ensure that China's future growth can be sustained without generating huge trade imbalances.

Japan

The Department of the Treasury closely monitors Japan's foreign exchange policy, which is reported on extensively in each Foreign Exchange Report.

The value of the yen is determined in open, competitive global markets, responding to the forces of supply and demand. Global trading in the yen-dollar market is extremely large, reflecting the importance of Japan in world trade and the global financial system. Since 2001, the yen-dollar exchange rate has fluctuated in the range of 105 to 135 yen to the dollar, and stands today at about 120 yen to the dollar. While Japan has previously intervened in the foreign exchange market, there is currently no intervention and Japan has not intervened since March 2004.

In real, price adjusted terms, the yen is at its lowest value since the early 1980s. The yen's real effective value is the result of a protracted period of deflation in the Japanese economy that coincided with rising prices in the United States and other trading partners of Japan. Japan's long deflationary episode reflects the drawn-out difficulties of Japan's adjustment to the bursting of the asset price bubble in the early 1990s.

Japan's economy is recovering. The recovery has been underway for several years, but it has not been brisk and it has not yet gathered steam. One of the most important contributions Japan could make to the global economy, and to U.S. firms and workers, would be to resume sustainable and robust domestic demand growth and exit completely from deflation.

We discuss foreign exchange issues with Japan and the other G7 partners regularly. Japan has joined repeated G7 statements supporting foreign exchange

flexibility.

Thank you.

[1] GAO-05-351; International Trade "Treasury Assessments Have Not Found Currency



May 10, 2007
HP-395

Fact Sheet
An Open Economy is Vital to United States
Prosperity

Today, President Bush reaffirmed America's continuing commitment to advancing open economies at home and abroad, including open investment and trade.

"The United States has a longstanding commitment to open economies that empower individuals, generate economic opportunity and prosperity for all, and provide the foundation for a free society. . . . A free and open international investment regime is vital for a stable and growing economy, both here at home and throughout the world."

- President George W. Bush

Focusing on the benefits of open investment, Secretary of the Treasury Henry M. Paulson Jr. will moderate a panel discussion on the gains to the United States economy from foreign investment here.

"Foreign investment in the United States strengthens our economy, improves productivity, creates good jobs, and spurs healthy competition. Americans have prospered as foreign companies have put their money to work here."

- Secretary Henry M. Paulson Jr.

Foreign Direct Investment (FDI) in the United States Creates High-Paying Jobs

- Foreign companies in the U.S. employed more than 5 million U.S. workers in 2005, providing 4.5% of all private sector employment in the United States.
- Manufacturing jobs accounted for 33% of the jobs created by foreign companies in the U.S. (2004 data). The manufacturing sector accounts for just 12% of overall U.S. private sector employment. Thus, FDI is disproportionately bolstering this important sector.
- An additional 4.6 million U.S. jobs indirectly depend on foreign investment in the U.S. (2005 data). Foreign companies in the U.S. buy 80% of their inputs from U.S. companies. This additional business indirectly supports almost as many U.S. jobs as FDI creates directly.
- Compensation at foreign companies in the U.S. is on average 30% higher than the U.S. national average. Foreign-owned firms paid U.S. workers an average of \$63,428 in 2004.

Foreign Direct Investment in the United States Strengthens Our Economy

- Foreign firms in the U.S. account for 5.7% of U.S. economic output, as well as 10% of all investment in plant and equipment in the United States.
- Foreign firms in the U.S. re-invested \$48.6 billion (45% of their income) back into the U.S. economy in 2004. This investment furthers innovation and promotes economic growth.
- Foreign firms generate 19% of U.S. exports (\$153.9 billion in 2006). This contribution is greater than their overall percentage of U.S. economic output, which means they are doing more than their share to help improve the U.S. trade balance.

- Foreign firms in the U.S. generate a disproportionate share of national R&D spending (13%, totaling \$29.9 billion). This spending strengthens U.S. global competitiveness in pharmaceuticals, high-tech, and other key sectors and produces innovative products that help to improve our standard of living.
- The economic benefits generated by inflows of foreign capital help strengthen economic leadership. In the late 1980s and early 1990s, some pointed with alarm to Japanese purchases of U.S. assets, fearing they foreshadowed the Japanese overtaking our economic leadership. Twenty years later, the resulting jobs and economic growth show those fears were misplaced.

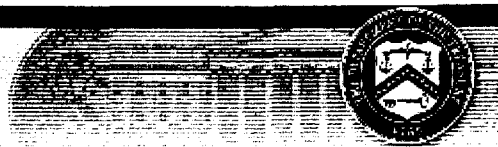
Maintaining U.S. Competitiveness in Attracting FDI Requires Renewed Commitment

- At \$1.9 trillion, the total stock of FDI in the United States in 2005 was equivalent to 15% of U.S. GDP. Foreign investment in the U.S. is the ultimate vote of confidence in our economy. It signals a long-term belief in the strength of our markets and the skill of our workforce.
- In the last few years, the United States has not received as high a share of total worldwide FDI as it did before 2000. This trend could be due to the growth of opportunities in emerging markets, burdensome U.S. legal, regulatory and corporate tax regimes, or the misperception that the United States is no longer open to foreign direct investments.
- However, this trend is cause for some concern. In 2000, foreign firms directly employed 5.7 million people in the U.S. (5.1% of the private sector workforce) and indirectly supported 6.5 million more jobs. In 2005, those figures had fallen to 5.1 million (4.7% of the private sector workforce) and 4.6 million, respectively. Foreign firms' R&D spending as a share of total R&D spending in the U.S. has also slightly declined since 2000.
- This trend reinforces the need for the United States to renew its commitment to open investment, and to policies that make the U.S. attractive for FDI.

Our National Security Review Process Has Not Restricted the United States' Openness to Foreign Direct Investment

- Since 1988, the interagency Committee on Foreign Investment in the United States (CFIUS) has carefully reviewed the potential national security impact of proposed foreign investments in the United States.
- CFIUS's recently more public profile has created the misconception in some quarters that the United States is becoming less open to foreign investment. However, CFIUS is continuing its long history of fairly, efficiently, and narrowly reviewing individual transactions for national security concerns alone, without any protectionist influence on its decisions.
- Less than 10% of foreign investments in U.S. companies were reviewed by CFIUS in 2006, and the average since 2000 is about 5%. The vast majority of foreign investment does not raise national security implications – and is untouched by the CFIUS process.

PRESS ROOM



May 10, 2007
HP-396

**Statement of David G. Nason
Nominee for Assistant Secretary for Financial Institutions
and to be a Member of the Board of Directors
for the National Consumer Cooperative Bank
U.S. Treasury Department
Before the Senate Committee on Banking, Housing and Urban Affairs**

Washington, D.C.- Chairman Reed, Ranking Member Shelby and members of the Committee, thank you for inviting me to appear before you today.

I am grateful to President Bush and Secretary Paulson for their trust and confidence in me. I am honored to be here today as the President's nominee to be Assistant Secretary for Financial Institutions at the Treasury Department and to be a member of the Board of Directors for the National Consumer Cooperative Bank, an organization established to assist underserved communities across the nation.

I would like to thank my family for their unyielding support of my decision to continue in public service. I'd like to introduce my wife, Nicole, my best friend and closest adviser, who is also a dedicated public servant, and our daughters, Alexandra, 6, and Abigail, 2. My parents George and Ann Nason are also here today. Aside from being very supportive parents, they are two of the greatest grandparents in the world.

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

In my current role as Deputy Assistant Secretary, I have had the opportunity to engage on numerous important issues that affect our capital markets and financial institutions, including Treasury's positions on banking and insurance regulation. I also serve as an advisor to Secretary Paulson in his capacity as chair of the President's Working Group on Financial Markets.

If confirmed, I will work constructively in my role as Assistant Secretary for Financial Institutions to ensure that the Department faithfully carries out its responsibilities related to financial institutions policy, critical infrastructure protection, and financial education. These topics are diverse, complex, and have a direct impact on the lives of Americans.

The legal and regulatory structure imposed on our financial institutions must guard against systemic risk, protect consumers, and enhance their confidence. If confirmed, I will help Secretary Paulson shape and implement his agenda on capital markets competitiveness. I share the Secretary's view that robust and vibrant capital markets are directly tied to future economic prosperity for all Americans.

I believe that my prior professional experience has prepared me for this important responsibility. Before coming to Treasury, I served at the Securities and Exchange Commission as counsel to a commissioner. I was there at a critical moment in the SEC's history – when the agency implemented the Sarbanes-Oxley Act of 2002, the most comprehensive piece of securities legislation in decades. My experience there has contributed significantly in preparing me for this next challenge at the Treasury Department. Prior to the SEC, I spent time in the private sector as an attorney at Covington & Burling where I focused on securities offerings, mergers and acquisitions, and federal tax planning.

If confirmed, I would seek to ensure a constructive dialogue with members of Congress and their staffs. I appreciate the time that members of this Committee have taken to consider my nomination, and I would be happy to answer any questions.

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May 10, 2007
hp-397

Remarks of Deputy Secretary Robert M. Kimmitt on the Role of Finance in Combating National Security Threats to the Washington Institute for Near East Policy, Soref Symposium

Thank you very much, Peter. It is a pleasure to join so many distinguished guests this evening, including Ambassador Dennis Ross, a friend and colleague for more than 20 years.

When reviewing what previous speakers had said to this august group, I noted that two years ago Paul Wolfowitz told a story about Ambassador Dick Walters, with whom we had both served during the Reagan Administration. Dick Walters was subsequently my predecessor as Ambassador to Germany, and he gave me just one bit of advice before I left for Bonn in the summer of 1991: "Don't ever forget how important speeches are to the Germans. They like to give speeches, listen to speeches, and analyze speeches far more than is the case in the United States." He recounted a story of speaking once to a distinguished group like that assembled here. He spoke in his excellent German for 40 minutes and sat down, rather pleased with himself, only to have the host of the evening stand and say, "Mr. Ambassador, thank you for your remarks. If you ever have time for a real speech, please come back to see us again." Well, if 40 minutes is when a "real speech" starts, you will be receiving from me tonight only remarks -- no more than 30 minutes -- so that we can leave time later for your questions.

Like so many others, I have benefited significantly from the work of the Washington Institute. In addition to reading your excellent analysis and research on a regular basis, I have also come to appreciate that the Institute and the Treasury Department engage in an informal, but mutually beneficial "exchange program," as some of our best and brightest spend time in each organization. In fact, two former Treasury colleagues, Matt Levitt and Mike Jacobson, are here with us this evening as they continue their superb research in your organization, and we are also joined by several current Treasury staff members.

I would like to discuss with you tonight the new and important role of the Treasury Department in combating national security threats. It is hard to imagine that we would have had a conversation like this when the Washington Institute held its first Soref Symposium event in 1988. It is only in recent years that the challenges of counter-terrorism and counter-proliferation have moved beyond the traditional province of foreign affairs, defense, intelligence, and law enforcement. Treasury and other Finance Ministries around the globe have evolved since September 11th, and the world of finance now plays a critical role in combating international security threats.

Treasury Transformed

In this new era, the Treasury Department is uniquely positioned to help address threats to global peace and security. This evening, I will outline how we have transformed our Department in order to detect, disrupt, and where possible, dismantle illicit financial networks. The Treasury Department has drawn upon its full range of authorities to target state sponsors of terrorism and WMD proliferation, in particular the Iranian regime, and we have coupled these domestic actions with coordinated multilateral efforts and engagement of the international financial community.

Our strategy today is notably different than it was during my first tour at the

Department in the 1980s, when I served as Treasury General Counsel during the second Reagan term. During those years, the Treasury Department was rarely involved in high-level National Security Council discussions – at most, perhaps five or six times a year. Today, Treasury is represented at five or six NSC meetings a month, both on the positive side of our agenda – helping stand up the economy in Iraq, for example – but also on the punitive side, where we seek to constrain illicit conduct by Iran, North Korea, and others.

To discharge these important responsibilities, the Department has developed new organizations and authorities to target key transnational security threats. In 2003, Treasury created a specific office dedicated to targeting the financial underpinnings of terrorism. This office was the beginning of a transformation within the Department to leverage existing capabilities to safeguard the financial sector from corrupt activity and play a more strategic role in combating terrorism. The following year, congressional and Executive action expanded this effort by creating the Office of Terrorism and Financial Intelligence, or "TFI" for short. TFI's mission is groundbreaking: it enhances the role of Treasury beyond pure economic and financial matters to include the development of innovative means to combat asymmetric, borderless threats. One of the clearest examples of this innovation at the Department is the creation of an in-house intelligence analysis office to bring the knowledge of the intelligence community to bear on the evolving threat of illicit finance. This office, the first of its kind in the world, helps Treasury enhance national capabilities by enabling our analysis of financial networks and infrastructure to be disseminated throughout the intelligence community.

With these expanded capabilities, the Treasury Department is uniquely equipped to address threats to our national security with a wide range of domestic legal authorities. Some of our tools are defensive measures, such as Section 311 of the USA PATRIOT Act, which authorizes Treasury to designate as a primary money laundering concern either a foreign jurisdiction, financial institution, type of account, or class of transactions. Section 311 enables Treasury to impose a range of special measures that U.S. financial institutions must take to protect against illicit financing risks associated with the designated target, including cutting the entity off from the U.S. financial system. Other authorities, such as the International Emergency Economic Powers Act (IEEPA) – which I will discuss further -- are more offensive in nature. These authorities are mutually reinforcing: we use both our offensive and defensive authorities to enhance and protect the ability of governments and the private sector to combat threats to the international financial system.

We have also led the effort in the international community to combat illicit financial activity. The Treasury Department's Office of Terrorism and Financial Intelligence leads the U.S. delegation to the Financial Action Task Force (FATF), a key international organization where finance ministries, central banks, and regulators meet frequently to share information and best practices, and set global standards for combating terrorist financing and money laundering. FATF works to establish standards to counter illicit financial conduct within the international community, and these standards – which have also been incorporated into the programs of the World Bank and the IMF -- aid countries in developing their own specific anti-money laundering and counter-terrorism financing laws and regulations.

Through FATF's working groups and its regional bodies – which include more than 150 countries -- TFI's typologies have spurred the creation of new guidance materials and best practices that outline methods for countries to implement counterterrorism financing and anti-money laundering standards. For example, the United States led international efforts to examine the abuse of non-profit organizations for terrorism financing purposes, and launched a study regarding the use of cash couriers as a means for moving funds in support of terrorism and other illicit activities. This study led to concrete actions by countries around the world to address the implementation of disclosure and declaration requirements for moving cash across borders.

We also led efforts within the FATF to address WMD proliferation by creating a mechanism to target proliferation finance and develop authorities to isolate WMD proliferators and their support networks. Through these efforts, we have worked to

broaden the scope of traditional financial regulation to include law enforcement, intelligence, and policy coordination. This multi-faceted approach to financial crime creates a broad impact and has resulted in broader adoption of FATF standards -- effectively enhancing counterterrorism efforts around the world.

The issue of countering terrorist and proliferation finance is also now firmly on the agenda of other international organizations such as the United Nations and the European Union. At the United Nations, nearly every UN Security Council resolution that has been passed since September 11th, including all those designed to counter WMD proliferation and terrorism, contain financial provisions -- from obligating states to perform enhanced scrutiny of financial transactions to the freezing of assets. In addition to the World Bank and IMF, other major international financial and economic forums, including the G-7, G-8, and APEC -- the Asia Pacific Economic Cooperation -- are also examining these issues. The G-20, an increasingly influential group of countries that includes China, India, Brazil, Australia, Turkey, Saudi Arabia, South Africa, and Mexico, has also become more involved in combating illicit finance.

With strengthened domestic authorities and increased international action, the United States is now much better equipped to address the threats facing a globalized world. The question then remains -- how do we use these tools most effectively? When we consider the best use of sanctions, many of us remember all too well Cold War-era sanctions, which often put only moderate pressure on the Soviet Union but resulted in increased tensions in transatlantic relationships. In fact, in 1983, one committee of academics, business leaders, and opinion makers described American economic sanctions against the Soviet Union in this manner: "Two things are of significance above all others: one, they haven't worked; two, they can't work."

To avoid past problems and increase effectiveness, we have developed a smarter, more focused sanctions approach. Specifically, the United States has worked to apply targeted financial pressure to isolate individuals, entities, and regime elements engaged in illicit finance in support of terrorism or WMD proliferation. These financial measures are aimed not at countries in general, but at conduct in specific. Applying effective financial sanctions requires careful economic, legal, and policy analysis to ensure that the measures are calibrated to meet their goals and minimize unintended consequences. The objectives for these measures are to isolate the target as well as to induce it to abandon harmful policies or practices. As David Ignatius aptly put it, "these new, targeted financial measures are to traditional sanctions what Super Glue is to Elmer's Glue-All."

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. Other measures impose bans on travel or arms transfers, serving to isolate the target. These kind of measures have several advantages over broad-based sanctions programs. Most importantly, instead of designating an entire country, they single out those responsible for supporting terrorism, proliferation, and other criminal activities, and such targeted measures are more likely to be accepted by a wider number of international actors and governments.

Iran

Turning to the subject of Iran, the Washington Institute has continued its excellent, incisive work on the Iranian regime, including during this symposium. The title of your event is precisely correct -- the prospect of an Iranian bomb is unacceptable, not just to the United States but to the entire world community, as evidenced by two unanimously adopted UN Security Council resolutions requiring the Iranian government to cease uranium enrichment. Iran's unrelenting pursuit of a nuclear weapons capability, combined with its continued provision of financial and material support to terrorist groups, makes the possibility of a nuclear-armed Iran a direct and dangerous threat to the international community.

To address the Iranian threat through deterrence and prevention, the United States has employed a two-fold sanctions strategy: utilizing domestic authorities and

engaging in international outreach.

First, under the International Emergency Economic Powers Act, which provides broad statutory authority to respond to threats, the President issued Executive Order 13382 in 2005. This Executive Order 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 Executive Order 13382 denies the targeted entities access to the U.S. financial and commercial systems and puts the international community on notice about the threat posed to global security. These prohibitions have a powerful effect, as the suppliers, financiers, transporters, and other facilitators of WMD networks tend to have commercial presences and accounts around the world that make them vulnerable to exactly this kind of financial action.

The United States designated the Iranian state-owned Bank Sepah under E.O. 13382 for providing financial services to Iran's missile program, and this action has had a significant impact. Like other Iranian banks, Bank Sepah engages in a range of deceptive practices in an effort to avoid detection, including requesting other financial institutions to conceal the Sepah name when processing its transactions in the international financial system. Additionally, Bank Sepah has facilitated business between North Korea's chief ballistic missile-related exporter, KOMID, and Iran's Aerospace Industries Organization. KOMID, which has also been designated by the Treasury Department under E.O. 13382, is known to have provided Iran with missile technology. By cutting off Sepah from the U.S. financial system, we have commercially isolated the institution and have made it more difficult for Iran to finance its proliferation-related activities.

Second, we have also worked through the international community to build upon our domestic actions. We are most effective when we proceed multilaterally, either with a coalition or with the consensus of the United Nations. Our multilateral efforts have yielded critical success in the fight against proliferation financing, and a key example is the unanimous adoption last month of UN Security Council Resolution 1747, which reaffirms and expands UN Security Council Resolution 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. Significantly, among these entities was Bank Sepah. The United States has worked with governments and financial institutions around the world to implement the common obligation to freeze the assets and economic resources of all listed entities and individuals, including Bank Sepah and Bank Sepah International.

We have worked closely with our fellow finance ministries and central banks abroad to build consensus on these financial measures, and the effect has been striking: international partners who originally resisted the idea of applying sanctions on Iran have reversed this position and now support pressuring the Iranian regime to renounce its support for WMD proliferation and to comply with its international obligations.

This is especially significant because we believe that segments of Iranian society beyond President Ahmadinejad and the Islamic Revolutionary Guard Corps – including the mullahs, their merchant class backers, and liberalizing forces – understand the high costs of the country's increasing isolation and the need to change its behavior.

Engaging the Financial Community

Our multilateral action to change Iran's behavior is not confined to governments, however. We have 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. We exchange 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 governments want to isolate those same actors and prevent them from abusing the financial system.

We are seeing concrete benefits through this partnership. We have learned that the Swiss bank UBS cut off all dealings with Iran, and Credit Suisse and HSBC have also significantly limited their exposure to Iranian business. A number of other foreign banks are refusing to issue new letters of credit to Iranian businesses. According to the banks, these were business decisions, pure and simple - handling Iran's accounts was no longer good business. Multinational corporations have also held back from investing in Iran, including limiting investment in Iran's oil field development.

Further, in a move that demonstrates that Iran is feeling the effects of financial isolation, the Iranian government also filed a complaint with the IMF - subsequently denied - that U.S. action against Bank Saderat, an Iranian state-owned institution, constituted a foreign exchange restriction.

And last year the OECD raised the risk rating of Iran, reflecting this shift in perceptions and indicating its sense of the inherent risk in doing business with Iran. Governments should not subsidize via export credit programs the country risk created by Iran's illicit behavior. The good news is we have seen a sharp decrease in export credits from countries such as Germany, France and Japan. We expect that the OECD's higher risk rating will contribute to a continued downward trend in export credits to Iran.

Additionally, Iran recently announced that it has reallocated its foreign reserves out of dollars. This raises the important point that while a growing number of banks have cut off Iranian business in dollars, they have not yet done so in other currencies. Regardless of the currency, the core risk with Iranian business remains the same: when dealing with Iran it is almost impossible to "know your customer." Since banks cannot be certain that parties are not involved in illicit activity -- and such conduct is not limited to one currency -- scaling back dollar-business reduces the problem, but does not eliminate it.

In spite of these successes, some have asked if further measures should be considered to increase pressure against Iran. Members of Congress are considering a number of legislative options, including application of U.S. sanctions to the business activities of foreign subsidiaries of American companies; mandatory divestment from companies doing business with Iran; and having the government "name and shame" firms - both domestic and foreign -- that do business with Iran. While these proposals are certainly well intended, they could have significant counter-productive policy implications. Our shared goal is to pressure the Iranian regime to change its behavior, and the best way to achieve this objective is to keep the focus on illicit conduct and maintain as broad an international coalition as possible. Yet many of these proposed measures may be seen by our allies as extraterritorial U.S. Government action and could affect our ability to obtain their cooperation on mutual action with respect to Iran.

You might recall the history of this debate. In the 1990s, for example, we were concerned about the commitment of our allies to put pressure on Iran through the imposition of sanctions. The European Union, in turn, argued that some measures under consideration were an inappropriate extension of U.S. law. In recent years, as discussed earlier, our economic sanctions strategy has evolved into a more targeted and conduct-based approach. Along with our international outreach, this has helped to build a coalition of partners with a shared goal of putting as much pressure as possible on the Iranian regime to change its behavior. As Mike Jacobson pointed out in a recent Washington Institute policy paper, our economic sanctions against Iran are intended to engage, not confront, our allies. We must be careful not to turn this successful effort into a debate that would engender transatlantic friction and turn the focus away from Iran's illicit conduct. Sanctions have the most comprehensive impact when applied cooperatively and collectively.

In closing, let me make clear that the Treasury Department's objective is to employ the most effective methods to dissuade the financing of dangerous activities, and especially Iran's nuclear ambitions.

After 30 years of experience in national security policy, I have come to the conclusion that the most effective sanctions meet the following criteria: they are

carefully targeted at illicit conduct; they are multilateral in scope; and they engage financial and business institutions as well as foreign governments. Any additional sanctions proposals should be judged against these criteria to ensure maximum effectiveness in deterring Iran's dangerous behavior. We look forward to continuing to work with all who support this goal, including the Washington Institute.

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

-30-

PRESS ROOM



May 10, 2007
hp-398

**Transcript of Secretary Paulson's Remarks
at Forum on International Investment**

SECRETARY HENRY M. PAULSON: Thank you all for being here, and welcome. And let me thank Todd Malan and Dean Brown very much for hosting this event. We appreciate it a great deal.

I'm very much looking forward to today's discussion about the role of investment and trade in our economy. As you heard, we have a very distinguished panel. We have a governor, a committee chairman – who will be here shortly – a best-selling author, a CEO, and a COO, and I'm going to I guess be the secretary of the group. (Laughter.)

It's very fitting that we gather on a college campus with graduate students. You know, it's – many of you I know are getting ready to begin careers. You're the next generation of leaders. You will begin your careers amidst one of the most dynamic eras of global business and finance: one filled with challenges and one filled with great opportunities.

This morning, President Bush released an important policy statement reaffirming the United States' longstanding commitment to open economies. An open economy, underpinned by the rule of law, includes free markets and trade. It also includes – as we will discuss in much more detail today – vigorous promotion of open investment policies.

This reaffirmation comes at a very critical time. As more and more nations move toward open markets, I'm concerned that the United States' longstanding consensus of support for an open economy is eroding.

We are witnessing a rise in protectionist sentiment. I can remember back to the 1980s, and I was talking with Governor Sanford earlier – he graduated from Virginia Business School then. And in the 1980s there were concerns about Japan's growing economic success when some thought Japan was going to own the world.

Some of you may remember that Japanese companies were buying property – buildings and things, landmarks. I remember the Rockefeller Center purchase, and Pebble Beach. And one might have inferred from the headlines and the hyperbolic rhetoric of the day that these landmark assets were headed straight for Tokyo. But the last time I looked, Rockefeller Center is still in New York City.

Twenty years later, we now know that the inflow of foreign capital brought many new American jobs. As a matter of fact, when a foreign investor makes a direct investment in our nation, it is the ultimate vote of confidence in our economy.

Unfortunately, the fear of foreign investment may be resurfacing. In a post-9/11 world, there's a sense that we must hold on to our assets more tightly as if somehow that will keep us safe. Clearly we must and we do take every precaution to protect our national security. This doesn't mean we should refuse investment capital that can create jobs and revitalize communities, or that we should discourage it by raising concerns that foreign investment may not be as welcome as it was in the past.

We need not be governed by fear. We can protect our national security while

welcoming investments that protect our economic security. And we have a process that does just that.

Since 1989, for 18 years, the U.S. has had interagency process known as CFIUS to review foreign acquisitions of a U.S. company if there are national security concerns. The CFIUS process involves all of our national security agencies working together in a vigorous investigation of the facts.

In the aftermath of the Dubai port situation, this process has received great public scrutiny, which has led some to believe that the U.S. is less friendly to foreign investment or attempting to erect barriers. I can assure you that this perception is not true. The CFIUS process applies only when a transaction may be related to national security, and that is a very small percentage of foreign investment. The vast majority are mergers, acquisitions and investments, and everything from retail to software acquisitions and investments that don't receive a national or – excuse me – a CFIUS review. Last year, for instance, only 10 percent of foreign direct investments were reviewed by CFIUS, and the vast majority of those received a review which was resolved without controversy.

When a transaction may relate to national security, our policy remains as it has been since CFIUS was created – to ensure national security first while keeping America open to investment.

Foreign direct investment is an essential part of our domestic economy. U.S. affiliates of foreign companies bring investments to our shores, creating jobs and revitalizing communities. By some measures, however, foreign direct investment, which peaked in 2000 – and the contribution to our economy – excuse me – it's very interesting because foreign direct investment had been growing pretty steadily for a long period of time. It peaked in 2000, and the contribution to our economy of foreign-owned subsidiaries has been tailing off or declining ever since. Now I think that it's too early to tell whether this is a temporary phenomenon or trend, but it bears watching very closely because foreign direct investment is, as I said, vital to our economic strength.

I'm just going to give you a few brief statistics before getting into our discussion. Foreign-owned companies directly provide jobs to over five million workers or almost 5 percent of our domestic workforce, and they also provide roughly an equivalent number of jobs indirectly because foreign-owned subsidiaries sourced about 80 percent of the inputs domestically. And these companies, which produce about 6 percent of our output also provide 10 percent of our total capital investment, 13 percent of our R&D, and 20 percent of our exports.

The United States has historically been the best place in the world to do business and is a magnet for foreign investment, so it's important to reaffirm both our openness to foreign direct investment and the benefits investment brings to the U.S. economy. And as we seek to attract foreign capital, we must realize that we have a constantly changing world where there are an increasing number of attractive economies across the globe competing for investment dollars. Against this backdrop, we must assess the cost versus the benefits of our regulatory structure and certain aspects of our legal system that may discourage foreign investment.

Our corporate tax system is also increasingly putting us at a competitive disadvantage with some – with a few other nations which tax companies or capital at lower rates than does the U.S.

The President's policy statement makes clear that the administration will not retreat. We welcome foreign investment and the benefits it brings to communities across America. In fact, I expect the administration will undertake a number of additional initiatives in support of open investment in the months ahead, and some are already underway.

And again, I look forward to working with the panelists today, and having a good discussion with all of you.

Thank you.

-30-

PRESS ROOM



May 11, 2007
HP-399

Treasury Deputy Secretary Kimmitt to Attend G8 Finance Ministers Meeting in Werder (Havel), Germany

U.S. Treasury Deputy Secretary Robert M. Kimmitt will attend a meeting of the G8 finance ministers next week in Werder (Havel), Germany. The following press conference will be open to credentialed reporters:

Who

Treasury Deputy Secretary Robert M. Kimmitt

What

G8 Press Conference

When

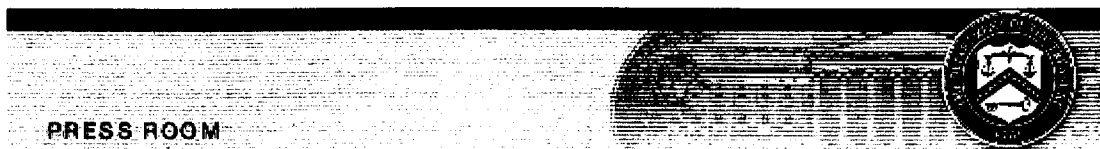
Saturday, May 19

Where

Resort Schwielowsee
Marquee No. 6a
Werder (Havel), Germany

Note

The press conference will begin following the conclusion of the meeting Saturday afternoon and after German officials have concluded their press conference.



May 14, 2007
HP-400

Treasury Secretary Paulson to Discuss Financial Education

U.S. Treasury Secretary Henry M. Paulson, Jr. will deliver remarks at the Financial Literacy and Education Commission's public meeting at the Treasury Department on Tuesday, May 15. Secretary Paulson, chairman of the 20-agency commission, will discuss the group's financial education initiatives. The following event is open to credentialed media:

Who

U.S. Treasury Secretary Henry M. Paulson, Jr.
Acting Assistant Secretary for Financial Institutions David G. Nason
Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr.

What

Remarks before the Financial Literacy and Education Commission public meeting

When

Tuesday, May 15, 10 a.m. (EST)

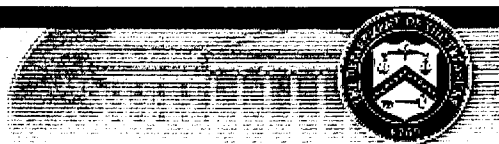
Where

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

Note

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

PRESS ROOM



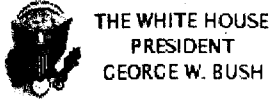
May 14, 2007
HP-401

x | Photo: Paulson
to Deliver
Remarks on
Financial
Education

Paulson to Deliver Remarks on Financial Education

U.S. Treasury Secretary Henry M. Paulson, Jr. will deliver remarks at the Financial Literacy and Education Commission's public meeting at the Treasury Department tomorrow. Secretary Paulson will discuss his recent meeting with President Bush and the importance of financial education for future homeowners considering a mortgage.

- Media Advisory
- Remarks by President Bush Following Meeting on Financial Education
- Free Financial Literacy and Education Commission Resources
- Treasury's Office of Financial Education



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For Immediate Release
Office of the Press Secretary
April 25, 2007

President Bush Participates in Meeting on Financial Literacy

Roosevelt Room

4:10 P.M. EDT

[Video \(Windows\)](#)

[Presidential Remarks](#)

[Audio](#)

THE PRESIDENT: April is Financial Literacy Month, and so I've asked some of our nation's most caring citizens to come and talk to us about how to develop and hone a strategy that will help more of our American citizens become financially literate. If you're not sure how interest works, it's hard to be a good homeowner. If you don't understand rates of return, it's hard to be a good investor. If you're not sure how money works, it will be missed opportunity for people from all walks of life.

It is in this country's interest that people in every neighborhood, from every background, understand the financial literacy world; understand what it means when people talks terms related to their money. The more financially literate our society is, the more hopeful our society becomes.

Ours is a great system. It is a system that means somebody can come to America or live in America with nothing and end up with a lot; a system where people can realize dreams and work hard and realize those dreams. But unless we have a financially literate society, not enough people are going to be able realize the great promise of America.

And so I want to thank the Secretary of Treasury, and the Secretary of Education, Secretary of Housing and Urban Development for agreeing to be a part of the committee to make sure the federal effort toward financial literacy is well coordinated with the private sector. And I thank those from the private sector for joining us. We've got people from corporate America, we've got people from faith-based America, we've got people from community-based-program America, we've got people from all walks of life, all around the country, who are deeply concerned about making sure this country is as financially literate as possible, and I thank you for coming. I appreciate you joining us. Mr. Secretary, thanks for chairing the project.

God bless.

END 4:13 P.M. EDT

Return to this article at:

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U.S. Financial Literacy and Education Commission
Providing financial education resources for all Americans



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Do you want to learn how to save, invest, and manage your money better?

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MyMoney.gov is the U.S. government's website dedicated to teaching all Americans the basics about financial education. Whether you are planning to buy a home, balancing your checkbook, or investing in your 401k, the resources on MyMoney.gov can help you do it better. Throughout the site, you will find important information from 20 federal agencies government wide.

News

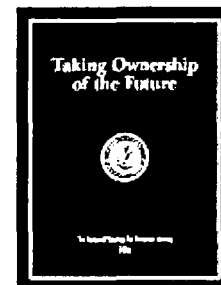
- The next public meeting of the Financial Literacy and Education Commission will be held on Tuesday, September 25, 2007.
- Prepare your finances for a hurricane.

Free "My Money" Tool Kit Order Form

Take the Money 20 Interactive Quiz!



National Strategy for Financial Literacy (1,919k pdf)



Quick Reference Guide (306k pdf)

Adueñándonos del futuro (2,236k pdf)

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MISSION

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

Financial Literacy and Education Commission - Resources and updates

STATISTIC OF THE WEEK

Did you know that just about 40% of workers have calculated their retirement savings plan?

Lois Vitt, Gwen Reichbach, Jamie Kent, Jurg Siegenthaler. "Goodbye to Complacency: Financial Education in the U.S. 2000-2005". Institute for Socio-Financial Studies. 2005, p31.

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FIRST ACCOUNTS PROGRAM

Last Updated: July 23, 2007

PRESS ROOM



May 14, 2007
HP-402

**Under Secretary Steel to Deliver
Remarks on Capital Markets Competitiveness**

U.S. Treasury Under Secretary for Domestic Finance Robert K. Steel will deliver remarks before the Council on Competitiveness on Thursday, May 17. Under Secretary Steel will discuss Secretary Paulson's next steps on his U.S. capital markets competitiveness initiative. The following event is open to credentialed media:

Who

U. S. Treasury Under Secretary for Domestic Finance Robert K. Steel

What

Remarks

When

Thursday, May 17 11:30 a.m. (EST)

Where

Council on Competitiveness
Suite 850
1500 K Street, NW
Washington DC

Note

Media should RSVP with Micheal Meener with the Council on Competitiveness at mmeneer@compete.org or (202) 969-3406

PRESS ROOM



May 14, 2007
2007-5-14-17-38-29-1821

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 \$66,197 million as of the end of that week, compared to \$66,339 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

May 11, 2007			
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			66,197
(a) Securities	12,934	10,596	23,530
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	12,938	5,167	18,105
(ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position	4,533		
(3) SDRs	8,989		
(4) gold (including gold deposits and, if appropriate, gold swapped)	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	0		
--financial derivatives			
--loans to nonbank nonresidents			
--other			
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-)					
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity, where applicable)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency					
(a) Collateral guarantees on debt falling due within 1 year					
(b) Other contingent liabilities					
2. Foreign currency securities issued with embedded options (puttable bonds)					
3. Undrawn, unconditional credit lines provided by:					
(a) other national monetary authorities, BIS, IMF, and other international organizations					
--other national monetary authorities (+)					
--BIS (+)					
--IMF (+)					
(b) with banks and other financial institutions headquartered in the reporting country (+)					

(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				
--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options ¹¹				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic	

currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	
--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (-)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	
--currencies in SDR basket	
--currencies not in SDR basket	
--by individual currencies (optional)	

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

FROM THE OFFICE OF PUBLIC AFFAIRS

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May 15, 2007
HP-403

Treasury International Capital (TIC) Data for March

Treasury International Capital (TIC) data for March are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). TIC will report on data for April, is scheduled for June 15, 2007.

Net foreign purchases of long-term securities were \$67.6 billion.

- Net foreign purchases of long-term U.S. securities were \$107.9 billion. Of this, net purchases by foreign official institutions were \$107.9 billion, and net purchases by private foreign investors were \$86.9 billion.
- U.S. residents purchased a net \$40.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been \$56.3 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased \$18.7 billion. Foreign holdings of Treasury bills increased \$20.4 billion.

Banks' own net dollar-denominated liabilities to foreign residents decreased \$29.9 billion.

Monthly net TIC flows were \$45.0 billion. Of this, net foreign private flows were \$16.6 billion, and net foreign official flows were \$28.5 billion.

TIC Monthly Reports on Cross-Border Financial Flows
(Billions of dollars, not seasonally adjusted)

		2005	2006	12 Months Through		Dec-07	Jan-08
				Mar-06	Mar-07		
Foreigners' Acquisitions of Long-term Securities							
1	Gross Purchases of Domestic U.S. Securities	17157.5	21101.7	18012.8	22509.6	1847.4	1819
2	Gross Sales of Domestic U.S. Securities	16145.9	19963.5	16959.3	21356.5	1785.5	1702
3	Domestic Securities Purchased, net (line 1 less line 2) /1	1011.5	1138.2	1053.5	1153.1	61.9	116
4	Private, net /2	891.1	941.6	913.0	950.5	37.9	104
5	Treasury Bonds & Notes, net	269.4	128.0	179.7	177.2	4.3	20
6	Gov't Agency Bonds, net	187.6	196.9	210.5	158.9	12.3	20
7	Corporate Bonds, net	353.1	472.2	394.8	483.8	32.4	40
8	Equities, net	81.0	144.5	127.9	130.5	-11.1	23
9	Official, net /3	120.4	196.6	140.5	202.5	24.0	12
10	Treasury Bonds & Notes, net	68.7	69.6	76.6	57.8	6.1	-5
11	Gov't Agency Bonds, net	31.6	92.6	36.0	109.2	15.5	15

12	Corporate Bonds, net	19.1	28.6	24.7	30.6	2.9	2
13	Equities, net	1.0	5.8	3.3	4.9	-0.5	-0
14	Gross Purchases of Foreign Securities from U.S. Residents	3700.0	5572.2	4174.0	6118.4	521.3	558
15	Gross Sales of Foreign Securities to U.S. Residents	3872.4	5819.4	4350.1	6395.4	570.1	576
16	Foreign Securities Purchased, net (line 14 less line 15) /4	-172.4	-247.1	-176.1	-277.0	-48.7	-18
17	Foreign Bonds Purchased, net	-45.1	-139.8	-48.8	-168.7	-29.2	-4
18	Foreign Equities Purchased, net	-127.3	-107.4	-127.4	-108.3	-19.5	-13
19	Net Long-Term Securities Transactions (line 3 plus line	839.1	891.1	877.4	876.1	13.2	98
20	Other Acquisitions of Long-term Securities, net /5	-140.0	-153.3	-149.6	-160.4	-13.1	-15
21	Net Foreign Acquisition of Long-Term Securities (lines 19 and 20):	699.1	737.8	727.8	715.7	0.1	83
22	Increase in Foreign Holdings of Dollar-denominated Short- U.S. Securities and Other Custody Liabilities: /6	-47.6	134.4	-31.3	185.2	6.9	17
23	U.S. Treasury Bills	-58.9	-9.0	-31.8	-0.5	-4.9	1
24	Private, net	-15.6	16.0	-11.1	19.7	4.4	-3
25	Official, net	-43.3	-25.0	-20.7	-20.2	-9.3	4
26	Other Negotiable Instruments and Selected Other Liabilities: /7	11.4	143.4	0.5	185.7	11.8	16
27	Private, net	10.6	163.2	6.1	182.0	6.0	20
28	Official, net	0.8	-19.8	-5.6	3.7	5.8	-3
29	Change in Banks' Own Net Dollar-Denominated Liabilities	16.4	167.1	261.3	-59.8	-18.2	-16
30	Monthly Net TIC Flows (lines 21,22,29) /8 of which	667.9	1039.3	957.7	841.1	-11.3	85
31	Private, net	580.6	897.7	832.5	642.7	-40.9	60
32	Official, net	87.3	141.6	125.2	198.3	29.7	25

/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 r of other foreign investors is subject to a "transaction bias" described in Frequently Asked Questions 7 and 10.a.4 on tl

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Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United States
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 +
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/6 These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims are
quarterly and published in the Treasury Bulletin and the TIC web site.

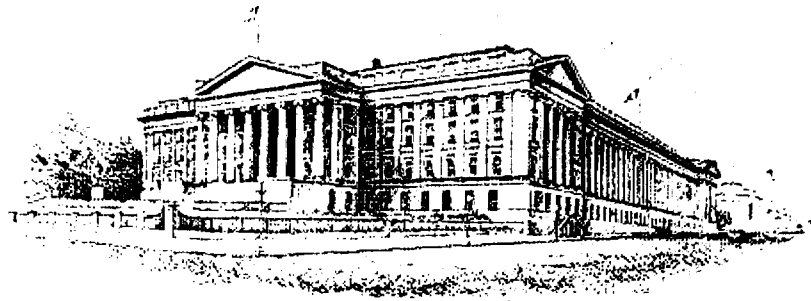
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REPORTS

- (PDF) TIC Monthly Reports on Cross-Border Financial Flows (Billions of dollars, not seasonally adjusted)



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 9 a.m. EDT, May 15, 2007
CONTACT Ann Marie Hauser, (202) 622-2960

TREASURY INTERNATIONAL CAPITAL DATA FOR MARCH

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6	Gov't Agency Bonds, net	187.6	196.9	210.5	158.9	12.3	20.0	-2.2	2.9
7	Corporate Bonds, net	353.1	472.2	394.8	483.8	32.4	40.7	39.9	39.7
8	Equities, net	81.0	144.5	127.9	130.5	-11.1	23.3	13.2	13.5
9	Official, net /3	120.4	196.6	140.5	202.5	24.0	12.3	12.6	21.0
10	Treasury Bonds & Notes, net	68.7	69.6	76.6	57.8	6.1	-5.3	2.5	4.4
11	Gov't Agency Bonds, net	31.6	92.6	36.0	109.2	15.5	15.8	4.2	12.6
12	Corporate Bonds, net	19.1	28.6	24.7	30.6	2.9	2.4	5.5	2.7
13	Equities, net	1.0	5.8	3.3	4.9	-0.5	-0.6	0.3	1.3
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23	U.S. Treasury Bills	-58.9	-9.0	-31.8	-0.5	-4.9	1.2	5.3	20.4
24	Private, net	-15.6	16.0	-11.1	19.7	4.4	-3.3	4.8	7.3
25	Official, net	-43.3	-25.0	-20.7	-20.2	-9.3	4.5	0.4	13.1
26	Other Negotiable Instruments and Selected Other Liabilities: /7	11.4	143.4	0.5	185.7	11.8	16.7	15.6	-1.7
27	Private, net	10.6	163.2	6.1	182.0	6.0	20.4	14.6	-4.5
28	Official, net	0.8	-19.8	-5.6	3.7	5.8	-3.7	1.0	2.7
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31	of which Private, net	580.6	897.7	832.5	642.7	-40.9	60.2	68.6	16.6
32	Official, net	87.3	141.6	125.2	198.3	29.7	25.3	32.9	28.5

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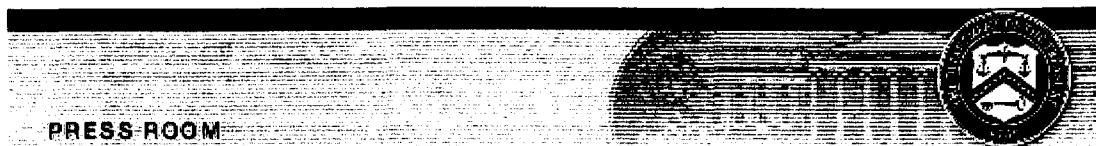
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May 10, 2007
HP-404

**Testimony of Chip Poncy
Director, Office of Strategic Policy,
for Terrorist Financing and Financial Crimes
U.S. Department of the Treasury
Before the U.S. Senate Homeland Security and Governmental Affairs
Committee**

Washington, D.C.--Chairman Lieberman and Ranking Member Collins, and distinguished members of the Committee, thank you for the opportunity to appear before you today to discuss the efforts of the U.S. Department of the Treasury (Treasury) to conduct private sector outreach and develop a better understanding of Muslim-American communities. Treasury's primary focus in outreach to the charitable sector and to these affected communities, concerns the ongoing risk of terrorist organizations' abuse and exploitation of charities, as well as using preventive measures to combat such abuses.

I. Introduction

Before describing Treasury's efforts to address these challenging issues, I would like to make three introductory points. First, as I will explain more fully in discussing various outreach initiatives, Treasury enjoys a broad-based relationship with the Muslim community here in the United States and abroad, in the private sector and with the governments of Muslim countries. This relationship not only includes critical and constructive engagement on combating terrorist financing and other threats, but also encompasses economic dialogues on development and financial markets.

Second, it is critical to clarify up front what violent Islamist extremism means and what it does not mean in the context of our counter-terrorist financing campaign and broader counter-terrorism mission. As Treasury and the Administration, the Congress and this Committee have repeatedly recognized, our global war against terrorism is not an attack against Islam or any religion, nor is it an attack against the fundamental freedoms of speech or expression. Rather, our war on terror is focused on Al Qaida and other terrorist organizations that seek to pervert and distort one of the great religions of the world in order to justify their violent agendas, intolerant ideologies and terrorist methods.

Third, I would like to recognize at the outset of my testimony that Treasury's role in combating terrorist financing – and in advancing the broader counter-terrorism mission of the U.S. Government (USG) – relies upon the leadership and support of the Congress and the interagency, international and private sector communities. Since September 11, 2001, and under the direction of the Administration and the Congress, Treasury has worked together with its law enforcement, regulatory and intelligence partners from across the interagency community, international counterparts from finance ministries around the world, state and local governments, and the private sector to help develop and implement a comprehensive and multi-faceted counter-terrorism strategy that degrades the capacity of terrorist organizations and their support networks. Such communication, coordination and collaboration across these relationships are essential to the success of our efforts.

To advance our counter-terrorist financing campaign and the broader counter-terrorism mission, we must aggressively apply our authorities and resources to identify, disrupt and dismantle these terrorist organizations and discredit their view of the world. This includes understanding how violent Islamist extremists can

function as key members of terrorist organizations and facilitators of terrorist activity, and taking appropriate action against such individuals. This also includes partnering with our Muslim neighbors, communities and allies to promote tolerance, advance fundamental rights such as the freedoms of speech and expression, protect all citizens of the world against terrorist attacks, and counter the message of violent Islamist extremism that al Qaida and other organizations often rely on to cultivate support for their actions.

In order to fully appreciate how Treasury's efforts to combat terrorist financing and protect the charitable sector from abuse further the overall USG effort to counter violent Islamist extremism, it is useful to briefly review the general mission of Treasury's Office of Terrorism and Financial Intelligence (TFI) and to highlight certain elements of TFI's broad counter-terrorist financing strategy. I would then like to focus on Treasury's specific outreach efforts to engage the Muslim and charitable communities, and how these efforts can be particularly effective in isolating and countering violent Islamist extremism.

II. TFI's Counter-Terrorist Financing Efforts of Particular Relevance to Countering Violent Islamist Extremism

In 2004, the Congress and the Administration improved Treasury's ability to contribute to the counter-terrorist financing campaign and the broader war on terror through the creation of the Office of Terrorism and Financial Intelligence (TFI). TFI's overarching mission is to marshal Treasury's unique regulatory, enforcement, intelligence, and policy authorities and capabilities with the twin aims of: (i) safeguarding the financial system against illicit use, and (ii) combating rogue nations, terrorist facilitators, WMD proliferators, money launderers, drug kingpins, and other national security threats through the development and application of financial information and economic and financial measures. It is the only office of its kind in the world.

Combating terrorist financing as an essential element of the broader war on terror continues to be a primary focus across TFI. I would like to briefly mention those particular elements of TFI's counter-terrorist financing strategy that are also relevant in countering violent Islamist extremism. These include:

- identifying typologies of terrorist financing support networks and the vulnerabilities of those networks to targeted sanctions and other financial measures;
- developing and implementing effective targeted sanctions regimes and other financial measures against terrorist organizations and their support networks to identify, disrupt, deter and ultimately prevent such support networks from providing terrorists with the resources they need to operate;
- globalizing implementation of international standards to combat terrorist financing, and
- combatting terrorist exploitation of charities.

Of these particular elements of TFI's strategy to combat terrorist financing, I would like to focus on our efforts to combat terrorist exploitation of charities. It is these efforts that form the basis of our outreach to the charitable and Muslim-American communities.

Combating terrorist exploitation of charities

Combating terrorist exploitation of the charitable sector represents an important component of TFI's counter-terrorist financing strategy and is of particular relevance to countering violent Islamist extremism. Terrorist organizations often establish or infiltrate charities to raise funds and support for their activities and operations. Charities are an attractive target for terrorist organizations for a variety of reasons, including:

- Charities enjoy the public trust, have access to considerable sources of funds, and are often cash-intensive.

- Some charities have a global presence that provides a framework for national and international operations and financial transactions, often within or near those areas that are most exposed to terrorist activity.
- Depending on the legal form of the charity and the country of origin, charities may often be subject to little or no governmental oversight (for example, registration, record keeping, reporting and monitoring), or few formalities may be required for their creation (for example, there may be no skills or starting capital required, no background checks necessary for employees).
- Unlike for-profit organizations, charitable funds are meant to move in one direction only. Accordingly, large purported charitable transfers can move without a corresponding return of value.
- Charities attract large numbers of unwitting donors along with the witting, thus increasing the amount of money available to terrorist organizations.
- The legitimate activities of charities related to terrorist organizations – such as the operation of schools, religious institutions, and hospitals – create fertile recruitment grounds, allowing terrorists to generate support for their causes and to propagate violent and extremist ideologies.
- By providing genuine relief and development services – as nearly all of the charities associated with terrorist organizations do – these charities benefit from public support, generating reluctance by many governments to take enforcement action against them.

Terrorist organizations have taken advantage of these characteristics to infiltrate the charitable sector and exploit charitable funds and operations to cover for or support terrorist activities or agendas. As explained in Section III below, the ongoing nature of such terrorist exploitation is well documented and described in the annex to Treasury's revised Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities (Voluntary Guidelines).

In response to this ongoing threat, TFI has worked with its interagency partners to develop a four-pronged strategy to combat such exploitation:

- Enhancing transparency of the charitable sector through coordinated oversight;
- Protecting the integrity of the charitable sector through targeted enforcement actions;
- Raising awareness of terrorist financing threats and risk mitigation practices in the charitable sector through comprehensive and sustained outreach; and
- Multi-lateralizing our efforts through international engagement.

Each element of this strategy is briefly discussed in turn below.

Enhancing transparency of the charitable sector through coordinated oversight: Strengthening the transparency of the charitable sector combats exploitation by terrorist organizations and abuse more generally by allowing charitable organizations, donors, and government authorities to better understand, oversee and detect abusive activity in the sector. In the U.S., the transparency of the charitable sector is managed by a three-level web of oversight consisting of: (i) the federal government; (ii) state authorities; and (iii) the private sector. At the federal level, the primary vehicle for oversight of charities is the federal tax system, administered by the Internal Revenue Service (IRS). The IRS oversees the charitable sector through its Tax Exempt and Government Entities Operating Division (TEGE). Additionally, U.S. states have agencies with oversight responsibilities over any charity raising money in that state, no matter where the charity is domiciled. Thirty-nine states require any such charity to register with them. Finally, a key element of the U.S. system is the self-regulation and self-policing performed by private sector bodies.

TFI and the IRS have worked together to strengthen the transparency of the charitable sector across federal, state and private sector interests through coordinated and enhanced oversight and outreach. Recent and ongoing efforts include the revision of federal tax forms such as the revised Form 1023 application for tax-exempt status, collaboration and awareness raising regarding terrorist financing risks and risk mitigation practices with state authorities such as the

National Association of State Charities Officials (NASCO) and the National Association of State Attorney Generals (NAAG), and with private sector umbrella groups such as Independent Sector, the Council on Foundations, the Evangelical Council for Financial Accountability (ECFA), the Better Business Bureau Wise Giving Alliance, and the Islamic Society of North America. These efforts, coupled with TFI's outreach efforts described below, have improved the transparency of the charitable sector, making it more difficult for terrorist organizations to penetrate and exploit charitable and donor communities.

Protecting the integrity of the sector through targeted enforcement actions:

TFI and the IRS, including TE/GE and the Criminal Investigative Division, work with the Federal Bureau of Investigation (FBI), the Department of Justice and other interagency partners to investigate and combat cases of terrorist financing in the charitable sector through targeted regulatory and law enforcement investigations, information sharing, terrorist financing designations, and criminal prosecutions. To date, the U.S. has designated five U.S.-based charities for terrorism related activities, blocked the assets of another U.S.-based charity in aid of investigation, and designated an additional 39 international charities for terrorist financing. Additionally, there have been a number of criminal prosecutions, including the leader of a U.S.-based charity for fraud and racketeering based on terrorist financing activity; an indictment of the largest Muslim-American charity and its leadership on terrorist financing-related charges, and several investigations of other charities suspected of terrorist activity. Many of these investigations are ongoing.

Raising awareness of terrorist financing threats and risk mitigation practices in the charitable sector through comprehensive and sustained outreach:

Identifying, attacking and protecting against terrorist abuse of charities require the active support of charities themselves. The government and the charitable sector share common interests in promoting and protecting charitable giving. Through active engagement with the charitable sector, TFI and its interagency partners are fostering awareness of terrorist financing risks to the charitable sector, explaining USG efforts to combat this ongoing abuse, and clarifying and improving ways in which the sector can mitigate these risks through best practices. These outreach efforts are described in greater detail below.

Multi-lateralizing our efforts through international engagement: The threat of terrorist financing through charities is clearly an international one and requires the understanding, cooperation and collaboration of our international partners. Through bilateral engagement and multilateral bodies such as the Financial Action Task Force (FATF), TFI and its interagency partners have: (i) published typologies of abuse to improve the global understanding of the terrorist threat to the charitable sector; (ii) established international standards, best practices and information-sharing channels to combat terrorist financing in national charitable sectors and international charitable organizations; (iii) improved global oversight of the international charitable sector; (iv) encouraged investigative techniques for detecting terrorist abuse of charities, and (v) multi-lateralized terrorist financing designations against international charities and charitable officials supporting terrorist organizations.

These comprehensive efforts to combat terrorist exploitation of the charitable sector are particularly important in countering violent Islamist extremism for two reasons. First such efforts attack a primary means of fundraising for terrorist organizations, thereby depriving violent Islamist extremists and their adherents from a particularly effective way of providing the funds necessary to execute terrorist activities and operations. Second, these efforts prevent terrorist organizations and violent Islamist extremists from leveraging relief and development assistance to win popular support from vulnerable populations and to recruit and radicalize additional members and operatives for a terrorist organization.

As discussed in the section on outreach below, such an aggressive strategy in combating terrorist exploitation of charities requires a robust outreach effort to charitable and Muslim communities to ensure that they understand the nature of the threat of terrorist exploitation, the basis of USG actions to combat this threat, and the efforts that they can undertake to mitigate the risk of terrorist abuse.

III. Treasury's Outreach Efforts to the Muslim-American and Charitable Communities

In addition to countering violent Islamist extremism through the particular elements of TFI's counter-terrorist financing strategy discussed above, Treasury is addressing this threat more directly by working with its partners in the interagency community and the Muslim-American and charitable communities to:

- A. Sustain a comprehensive outreach campaign to explain and address the threat of terrorist exploitation of the charitable sector; and
- B. Support a broad economic dialogue with the Middle East / North Africa region.

The overarching objective of this outreach campaign and economic dialogue is to better understand and address the challenges facing the moderate Islamic community and the charitable sector and to support the development and integration of the moderate Islamic community into American society and the global economy, thereby alienating violent Islamist extremists and minimizing their ability to generate support or sympathy for terrorist organizations, agendas or ideologies.

A. Charitable and Muslim-American Outreach

Our outreach to the charitable and Muslim-American communities generally consists of an ongoing discussion relating to the following four fundamental points:

- (i) *The USG recognizes and strongly supports the essential role of charity in Muslim, American and global society.*

Almsgiving is an important expression of religious faith for Muslims throughout the world. Charity is one of the pillars of Islam, pursuant to which observant Muslim men and women have a duty to give a certain percentage of their earnings to specified recipients (Zakat), as well provide alms throughout the year (Sadaqah). Such giving builds local communities, and also links these communities to the other parts of the world. It is important to recognize and respect this role of charity in the Muslim faith.

It is also important to note that charitable giving and philanthropy is a core American value and an integral part of American culture and society. As an example, in recent years the American people have donated more than \$200 billion annually to charitable causes, including to Muslim populations such as those affected by the 2004 tsunami in Indonesia and Southeast Asia and the 2005 earthquake in Pakistan.

The USG strongly encourages such expressions of charity, as evident by the favorable tax treatment that charities and donors receive under the Internal Revenue Code. We will continue to work with the Muslim-American community and the charitable sector to promote the practice of charitable giving in ways that are safe and effective.

- (ii) *Terrorist organizations continue to effectively exploit charity to finance their operations and to cultivate broader support from vulnerable populations.*

As described above, various characteristics of the charitable sector make it particularly vulnerable to terrorist abuse, by both witting and unwitting charities and donors. Such abuse may involve the narrow diversion of funds intended to support charitable activities but redirected for terrorist operations or activities. A more common problem with well-organized terrorist groups such as Hezbollah or Hamas is the broader exploitation of charitable services to radicalize vulnerable populations and cultivate support for terrorist organizations, agendas and ideologies. Often, charitable and Muslim communities are not aware of this problem of broader exploitation because their charitable funds are actually used for charitable

purposes. A problem arises, however, when a terrorist organization controls and administers such charity in ways that recruit support and radicalize communities that begin to rely on the terrorist organization for assistance.

As described below, the ongoing nature of such broad terrorist exploitation is well documented and described in the annex to Treasury's revised Voluntary Guidelines. It is critical that our sustained outreach to the charitable and Muslim communities conveys the nature and depth of this abuse.

(iii) *The USG has developed and is applying a comprehensive strategy to combat terrorist abuse of charity through a comprehensive four-pronged strategy.*

Another critical component of our outreach message involves a clear explanation of the USG's four-pronged approach to combating terrorist exploitation of the charitable sector, as described above. Misperceptions of USG actions to combat terrorist exploitation of the charitable sector, including through the use of targeted sanctions and independent criminal investigations against those charities that operate as part of a terrorist organization's support network, may foster a sense that the USG is unfairly targeting Muslim communities or Muslim charity. Clear and sustained outreach is necessary to explain the USG approach and to address any such misperceptions before they become grounds for victimization and alienation. It is also essential to explain and underscore the importance of legal safeguards that remain in place for those under investigation or sanctioned pursuant to designation under Executive Order 13224.

(iv) *The USG and the charitable sector must work together to promote safe and effective charitable activity and to protect the sector from terrorist exploitation.*

The fourth fundamental element of our outreach to the charitable and Muslim communities is the need for the USG and these communities to work together to overcome the threat of terrorist exploitation of charity. A good example of how this partnership can produce significant results is the revision and issuance of Treasury's Voluntary Guidelines, based on extensive consultation between Treasury and the charitable and Muslim communities.

The revised Voluntary Guidelines are designed to enhance awareness in the donor and charitable communities of the kinds of practices that charities may adopt to reduce the risk of terrorist financing or abuse. Treasury first released the Voluntary Guidelines in November 2002 and solicited feedback from the charitable sector, which indicated that the Voluntary Guidelines could be substantially improved to assist in identifying reasonable yet effective measures to protect against terrorist abuse. In December 2005, based on extensive review and comment by public and private sector interested parties, Treasury revised and released the revised Voluntary Guidelines in draft form for further public comment. Based on the comments received, Treasury further amended the Voluntary Guidelines to improve their utility to the charitable sector in adopting practices that can better protect it from terrorist exploitation.

Charities and donors are encouraged to consult the revised Voluntary Guidelines when considering protective measures to prevent infiltration, exploitation, or abuse by terrorists. In addition, the revised Voluntary Guidelines are intended to assist charities in understanding and facilitating compliance with preexisting U.S. legal requirements related to combating terrorist financing, which include various sanctions programs administered by TFI's Office of Foreign Assets Control. These pre-existing legal requirements are clearly marked in the text of the revised Voluntary Guidelines.

The revised Voluntary Guidelines are also clearly risk-based, reflecting Treasury's recognition that a "one-size-fits-all" approach is untenable and inappropriate due to the diversity of the charitable sector and its operations. Moreover, Treasury acknowledges in the revised Voluntary Guidelines that certain exigent circumstances (such as catastrophic disasters) may make application of the revised Voluntary Guidelines difficult. In such cases, the revised Voluntary Guidelines advocate that charities should maintain a risk-based approach that includes all

prudent and reasonable measures that are feasible under the circumstances.

The revised Voluntary Guidelines also explicitly acknowledge the vital importance of the charitable community in providing essential services around the world, the difficulty of providing assistance to those in need, often in remote and inaccessible regions, and the laudable efforts of the charitable community to meet such needs. As stated in the introductory section of the revised Voluntary Guidelines, the goal of the guidance is to facilitate legitimate charitable efforts and protect the integrity of the charitable sector and good faith donors by offering the sector ways to prevent terrorist organizations from exploiting charitable activities for their own benefit.

Finally, the revised Voluntary Guidelines include an annex that chronicles the nature of terrorist abuse of charities. The annex notes the exploitation of relief efforts by Lashkar e Tayyiba (a.k.a. Jamaat-ud-Dawa) and other terrorist-related charitable organizations or charitable fronts following the October 2005 earthquake in South Asia; the critical role of Hamas-associated charities in building popular support for the Hamas terrorist organization in the Palestinian territories, and Hezbollah's effective and substantial control of the charitable distribution networks in southern Lebanon as some prominent examples among many that demonstrate the ongoing intent and effectiveness of terrorist organizations in exploiting charitable organizations and relief efforts.

TFI, in coordination with its interagency partners, recently released a risk matrix for charities to better understand relevant risk factors in applying the revised Voluntary Guidelines. TFI, in coordination with its interagency partners, has also recently discussed with the Muslim-American community ways to build upon these efforts with additional products that may help the community better understand how to apply the Guidelines under particularly challenging circumstances where the delivery of assistance is desperately needed but where the risk of abuse is also extremely high. We will continue to explore ways to help address such particularly challenging circumstances, in consultation with the private sector and our interagency partners.

In order to convey and engage the charitable sector and Muslim community on these four fundamental points, TFI, together with officials from the FBI and the Department of Homeland Security, has participated in numerous outreach programs in cities such as Boston, New York City, Chicago, Los Angeles, Detroit and Dearborn, Michigan. These events often take the form of "town hall meetings" and address the nature of the ongoing terrorist threat, our counter-terrorism efforts, and how we can work cooperatively with the Muslim and Arab-American communities. Such meetings also provide a forum for communities to express concerns and comment on our efforts. Another important partnership is our work with NAAG and NASCO, whose state-based resources and contacts are vital to getting our message out to the widest audience.

TFI also maintains a number of publicly available web sites and resources, which provide helpful materials related to terrorism financing, U.S. sanctions programs, and risks of terrorist abuse. These offer materials that range from a comprehensive list of designated terrorist organizations and individuals, frequently asked questions, typologies of terrorist behavior, and brochures to a public "hotline". In response to suggestions from the charitable and Muslim-American communities, TFI has also developed a particular web page devoted to terrorist financing issues that impact charities. Treasury is continually updating these materials to reflect changes in law and regulations, additions to the designations list and the emergence of new terrorist risks.

B. A Broad Economic Dialogue with the MENA Region

As noted in my introduction, Treasury's engagement with the Muslim community is not limited to discussing terrorist financing-related issues, but rather includes broad economic ties that Treasury has cultivated throughout the Middle East and North Africa (MENA) region. Treasury regularly meets with Arab-Muslim leaders and bankers as part of its regular course of business, and through formal and informal private sector dialogues, to discuss issues affecting financial markets, as well as the effect of AML/CFT controls on business developments. More generally,

Treasury is engaged in a broad effort to expand financial and economic relationships across the Muslim world in a variety of ways. In 2004, Treasury launched the G8-Broader MENA Initiative. Recently, Treasury launched a series of direct bilateral efforts with its colleagues in the Gulf Cooperation Council Countries (GCC). Additionally, Treasury continues to be extremely active in providing economic reconstruction assistance, working in particular through the Afghan and Iraq Compacts. Similarly, Treasury helped to lead the economic aspects of U.S. and international relief efforts after the tsunami in Southeast Asia and earthquakes in Pakistan and Indonesia.

Another of Treasury's broader initiatives regarding outreach to the Muslim community is the U.S.-Middle East and North Africa Private Sector Dialogue (US-MENA PSD). This dialogue, which links the banking and regulatory communities from the U.S. and MENA regions, focuses on the ongoing challenges relating to the development and implementation of effective AML/CFT controls in the banking sector, with the goal of facilitating effective and efficient AML/CFT implementation and paving the way for business development interests and commercial relationships. To date, we have organized two conferences, and the third US-MENA PSD conference is scheduled to take place in December 2007 in Dubai. Our interaction supports moderates within the Muslim faith and allows us to build new relationships with organizations from the Muslim-American communities, like the Arab Bankers Association of North America (ABANA).

Treasury is also working with the Muslim/Arab American communities to help restore confidence in the integrity of the charitable sector. For example, we are actively working with professional organizations such as the Muslim Advocates/National Association of Muslim Lawyers to develop outreach efforts specifically geared towards the Muslim-American philanthropy. The goal is to have such organizations take responsibility for their own governance and to provide assistance to their members.

Conclusion

In closing, I would like to underscore the importance of maintaining a comprehensive approach to defeating violent Islamist extremism. As members of this Committee have noted, there is no silver bullet to defeating violent extremism or absolutism of any kind. Instead, we must continue to work with our interagency partners, international counterparts, state and local authorities, and the private sector to aggressively apply our authorities and resources pursuant to the broader USG strategy to combat global terrorism. We must also continue to aggressively engage in outreach to the charitable and Muslim communities about the threats we face and the actions we are taking to combat these threats. And we must remember that the moderate Islamic community is our most important asset in this long-term struggle.

In the years since September 11th, we have made substantial progress in forging and strengthening the necessary relationships across various agencies and bureaucracies, as well as across nationalities and geographic and cultural boundaries, but much work still needs to be done. I am confident that with the continued leadership of the Congress, the Treasury, our interagency partners across the Administration, and our friends and allies at home and abroad, that we will successfully overcome the challenges that lie before us. And I am honored to continue to serve as a part of this historic effort.

Thank you for the opportunity to speak with you today. I am happy to answer any questions you may have.



May 16, 2007
HP-406

**U.S. Special Envoy for China Alan Holmer
to Hold Strategic Economic Dialogue Press Briefing**

U.S. Special Envoy for China Alan Holmer will hold two press briefings Friday in advance of the Strategic Economic Dialogue meeting in Washington, D.C., next week.

- **Who** U.S. Special Envoy for China Alan Holmer
- **What** Strategic Economic Dialogue Press Briefing
- **When** 9 a.m., Friday, May 18
- **Where** Media Room 4121
Treasury Department
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Note This is a pen and pad briefing, no cameras. Media without Treasury press credentials planning to attend must contact Frances Anderson in Treasury's Office of Public Affairs at (202) 622-2960 or (202) 528-9086 with the following information: name, Social Security number and date of birth. This information may also be emailed to frances.anderson@do.treas.gov.

- **Who** U.S. Special Envoy for China Alan Holmer
- **What** Strategic Economic Dialogue Press Briefing
- **When** 3 p.m., Friday, May 18
- **Where** Washington Foreign Press Center
800 National Press Building
529 14th Street, NW

Note This is a pen and pad briefing, no cameras, for credential foreign media only. For more information contact Gabrielle Price at PriceGM@state.gov or (202) 504-6320.

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PRESS ROOM

May 17, 2007
HP-407

**Paulson: Financial Reporting
Vital to US Market Integrity, Strong Economy**

Washington, DC- The Financial Times published the following opinion editorial today from U.S. Treasury Secretary Henry M. Paulson, Jr., discussing the first stage of his plan to enhance U.S. capital markets competitiveness:

The Key Test of Accurate Financial Reporting is Trust

By Henry Paulson

Accurate and transparent financial reporting is vital to the integrity of our capital markets and the strength of the US economy. In an address last November, I spoke about the importance of strong capital markets, pointing out that capital markets rely on trust. That trust is based on financial information presumed to be accurate and to reflect economic reality.

Our capital markets are the best in the world and so is our financial reporting system. We must work to keep them that way. On Thursday, the Treasury department is announcing several important steps to ensure we preserve an efficient financial reporting system that provides reliable information, is supported by a sustainable auditing industry, and has enhanced compatibility with foreign reporting standards.

In March, Christopher Cox, the Securities and Exchange Commission chairman, and I co-chaired a conference on capital markets competitiveness. Financial reporting was one of the main topics of discussion.

A strong auditing profession is essential for a well-functioning reporting system. The auditor's role is key: to examine financial statements and express an opinion that conveys reasonable, but not absolute, assurance as to the truth and fairness of those statements. The Sarbanes-Oxley Act of 2002 enhanced financial reporting integrity, including mandating major changes affecting the auditing profession. The act created the Public Company Accounting Oversight Board to replace self-regulation, and mandated auditor independence requirements. As these changes took effect, new challenges arose. We now have fewer major accounting firms, and legitimate questions about the sustainability of the auditing profession's business model.

These new challenges require understanding and solutions. To achieve this, the Treasury has asked Arthur Levitt, former SEC chairman, and Donald Nicolaisen, former SEC chief accountant, to serve as co-chairs of a non-partisan committee to address auditing industry concentration, and to consider options available to strengthen the industry's financial soundness and its ability to attract and retain qualified personnel. Through this public forum, investors, advocates, and companies can present a wide range of views, engage in informed debate and provide recommendations.

In addition to changes in the auditing profession, Section 404 of Sarbox appropriately emphasized the importance of internal controls over financial reporting. However, implementation has proven more costly and burdensome than originally anticipated. Mr Cox, Mark Olson, PCAOB chairman, and their commissioners and board members have sought to improve the application of Section 404. A more risk-based implementation will be a positive step.

Another emerging challenge is the soaring number of financial restatements over the past decade. In 1997, there were 116 restatements; in 2006, there were 1,876, or more than 10 per cent of public companies. Restatements pose significant costs on our capital markets. They have the potential to confuse investors and erode public confidence in financial reporting. Some of these restatements might not be material to investors, and others may simply reflect new accounting standards interpretations.

This volume of restatements reflects, in part, the complexity of our financial reporting system. Mr Cox and Robert Herz, Financial Accounting Standard Board chairman, are to be commended for their efforts to reduce that complexity. To complement this move, the Treasury intends to commission a rigorous analysis of factors driving financial restatements, and their impact on investors and the capital markets.

The increasing globalisation of our markets also means that we must enhance the comparability of foreign company financial statements. Mr Cox's leadership has been instrumental. He has taken positive steps towards the convergence of US GAAP and International Financial Reporting Standards, and eliminating the US GAAP reconciliation requirements for IFRS-reporting foreign companies by 2009.

As the SEC has said, its actions are key steps "toward a future regulatory framework in which IFRS may be used on a stand-alone basis by foreign private issuers and possibly also by US issuers." When fully implemented, this will enhance financial statement consistency and facilitate cross-border transactions and cash flows.

We will pursue each of these initiatives, and other steps that will be part of the broader competitiveness discussion, to ensure that US capital markets remain efficient, innovative and continue to drive capital to its most productive uses. Our markets must retain the integrity and efficiency that has contributed greatly to prosperity in America and around

The writer is US Treasury secretary

PRESS ROOM



May 17, 2007
HP-408

Paulson Announces First Stage of Capital Markets Action Plan

Washington, DC- U.S. Treasury Secretary Henry M. Paulson, Jr. announced initiatives today to enhance U.S. capital markets competitiveness, focused on strengthened financial reporting and a more sustainable and transparent auditing profession.

"Strengthening the competitiveness of America's capital markets has been a priority issue for me since taking office," said Secretary Paulson. "I have listened carefully to many diverging views on this issue, and I heard a common theme throughout: A transparent financial reporting system and vibrant auditing profession form the backbone of a marketplace investors can trust. Any plan to strengthen our capital markets must be based upon this principle."

Today's initiatives are one piece of the follow up from the Capital Markets Competitiveness conference Secretary Paulson and Securities and Exchange Commission Chairman Christopher Cox co-chaired in March. At that conference, financial reporting was one of the main topics of discussion among leading experts representing investors, auditors, public companies and financial regulators. The conference raised other issues important to the competitiveness of our capital markets, and Treasury will be unveiling plans to follow up in those areas in the near future.

Today's initiatives are part of an ongoing effort to address the issues affecting U.S. capital markets competitiveness. Initiatives announced include:

Provide Investors with A Transparent and Sustainable Auditing System The Treasury Department intends to charter a non-partisan committee to develop recommendations to consider options available to strengthen the industry's financial soundness and its ability to attract and retain qualified personnel. Treasury has asked former SEC Chairman Arthur Levitt, Jr. and former SEC Chief Accountant Donald T. Nicolaisen to serve as co-chairs for this public forum.

Gain Better Understanding of Reasons for Increasing Financial Restatements Restatements have soared during the past decade from 116 in 1997 to 1,876 in 2006. Treasury intends to commission a rigorous analysis of the factors driving financial restatements and their impact on investors and the capital markets. Results of the analysis will be made public upon completion.


Additionally, the Treasury Department believes the following initiatives are important to maintaining the competitiveness of our capital markets:

Enhance Financial Reporting U.S. Generally Accepted Accounting Principles are comprised of more than 2000 individual pronouncements issued by various regulatory bodies. Investors often seek information not provided under financial reporting requirements. The Treasury Department is supportive of the SEC and the Financial Accounting Standards Board's efforts to enhance financial reporting transparency and accessibility for investors.

Streamline Accounting Requirements to Encourage International Companies to List on U.S. Exchanges and Increase Investor Opportunities U.S. public markets should not be closed off to companies that adhere to high quality

internationally accepted accounting standards. The Treasury Department is supportive of the SEC's action to eliminate the U.S. GAAP reconciliation requirement by 2009 of International Financial Reporting Standards reporting companies and the continued convergence of U.S. GAAP and IFRS.

Secretary Paulson will continue to provide follow up steps to other ideas discussed at the March conference.



PRESS ROOM

May 17, 2007
HP-409

**Under Secretary for Domestic Finance
Robert K. Steel
Remarks Before the Council on Competitiveness
"Strengthening our Capital Markets
Competitiveness"**

Washington, DC- Thank you very much. Deborah, thank you for that introduction and to everyone gathered here this morning, thank you for welcoming me.

It is a privilege to be here at the Council on Competitiveness. You are fortunate to have Deborah's strong leadership. She has served here at the Council since 1993 and has helped your organization develop a great reputation of excellence.

For nearly two decades, the Council on Competitiveness has brought together our nation's business, academic and labor leaders to help us chart a course for global competitiveness. Your mission reflects a commitment to the future prosperity of all Americans and enhanced U.S. competitiveness in a global economy. These important objectives echo one of Secretary Paulson's key goals for the Treasury Department – to encourage the competitiveness of U.S. capital markets.

Strengthening our Bridge

Today, Secretary Paulson announced the first stage of his plan to enhance U.S. capital markets competitiveness. These steps focus on strengthening financial reporting to enhance investor protection and encourage a vibrant, sustainable auditing profession. I will discuss today's announcement in more detail, but first would like to offer some general perspectives on how we think about issues of competitiveness.

For some, optimism about the future of our capital markets comes less easily today. We at Treasury do not share that view. Instead, we start with the fact that our markets are the strongest in the world. Earlier in this decade, our markets passed safely through several perils, including the burst of the technology bubble, a terrorist attack and a series of corporate accounting scandals. Today, our economy is healthy – the labor market is strong, core inflation is contained and we are transitioning from an unsustainable to a sustainable rate of growth. Our markets are deep, vibrant and efficient, and our financial system remains the envy of the world.

We plan to keep things that way. Maintaining this leadership requires having the confidence to continually self-assess our position and when appropriate, make changes or adjustments. For that reason, Secretary Paulson has asked the Treasury Department to engage in a broad, ongoing initiative to strengthen the competitiveness of our capital markets.

Our efforts kicked off last November with a major speech by Secretary Paulson in New York, which served to frame the issues. Since his address, an enriching period of public discourse has followed, highlighted by the release of three separate and independent reports. In March, Secretary Paulson hosted a conference on capital markets competitiveness. We heard from key policymakers, consumer advocates, business representatives and academics, each with different perspectives on ways to keep U.S. capital markets the strongest and most innovative in the world.

The many voices involved both in our conference and the three reports have

illuminated the vital role capital markets play in our economy.

Markets serve as a bridge, connecting suppliers of capital with users of capital. They connect those who have resources to invest with those who could use this capital to turn new ideas into businesses, generating jobs and contributing to the economy.

The most effective bridges allow participants and their capital to cross from one side to the other with as little friction as possible. Effective bridges facilitate an open, transparent flow of information, and are built on strong pillars of investor protection, market integrity and risk mitigation.

The structure, management and regulation of a bridge are each crucial. We seek to ensure that the policies in place for managing *our* bridge are effective in protecting investors and consumers, while at the same time enhancing the entrepreneurial spirit and innovation that has made America great.

As keepers of our bridge, we must carefully consider what measurements we will use to gauge the strength of our markets, not just for today but also for the future. The indicators we examine include more than just public offerings. IPOs have become an often-referenced benchmark of capital markets competitiveness, but focusing solely on that measurement is too simple and not forward-looking enough.

We should start with a global vision and look broadly at measures that gauge our ability to foster human capital, encourage innovation and reward efficiency. As these conditions are met, we will continue to excel in areas such as:

- skills for asset management;
- alternative asset management, such as venture capital, private equity and hedge funds;
- trading and execution models characterized by leading-edge technology;
- innovation in all types of investor products, including listed and unlisted derivatives;
- and the accessible advice of a trusted advisor for governments, companies and investors.

By most measurements we remain the uncontested world leader. We are well ahead of the rest of the world in mutual fund and hedge fund assets, venture capital and private equity, securitization, syndicated loans, and yield in equities and exchange-traded derivatives.

- 45% of global mutual fund assets are housed in the U.S., compared to 35% in Europe and 11% in Asia.
- Of the \$2.1 trillion in global hedge fund assets, \$1.5 trillion resides here in the U.S.
- Worldwide, there are 351 hedge funds with at least a \$1 billion in assets, and almost 70% (241) of them are located in the U.S.
- Last year, more than 80% of outstanding OTC foreign exchange derivatives worldwide were in the U.S. Dollar.
- The number of futures contracts traded on organized exchanges in the U.S. in 2006 was 1.3 times higher than what was traded in Europe and more than 5 times higher than trading volume in Asia.

Let's be straightforward here: Financial markets in the U.S. are second to none. Our exchanges in New York and Chicago, asset management industry based all across the U.S., and commercial and investment banks with a global reach are unrivaled on an international scale. Additionally, our accounting and auditing professions, legal advice and management and consulting industries are the strongest in the world.

Globalization is an Opportunity to Advance our Leadership

Certainly, our markets are not immune to challenges. But we view challenges as an

opportunity to improve – to make the best capital markets even better. Often when you are doing well proves to be the best time to focus on improvement. We are a nation and an economy that overcomes challenges and creates solutions. Americans are a creative, innovative people; we are entrepreneurs, risk-takers, and most of all competitors and winners.

Secretary Paulson's capital markets competitiveness initiative is about using recent trends like globalization as an opportunity to leverage our competitiveness and bring even greater benefits to our economy and citizens.

Today, emerging markets throughout the world are rapidly expanding and progressing. More and more countries are borrowing our expertise, emulating our success and moving to market-based systems. As a result their economies are growing and becoming stronger. Leaders around the world now realize that a market-driven economy has the best chance of producing economic growth and productivity, a higher standard of living and lower rates of unemployment.

Without a doubt, financial capital is more mobile now than ever before, and with more choices, investors are able to access capital all over the world that was once available only in the U.S.

This development is not something to fear. In fact, during my career in the financial services industry, I worked with many companies to take advantage of globalization, helping firms develop new markets overseas and working with small companies to become big corporations.

Just as athletes perform better under the pressure of healthy competition, so too can we use this opportunity to raise our game and further enhance our competitive edge.

A New Approach to Regulation

The world has continued to evolve. Competition has become more flexible, but there are many things we can do to compete more effectively, including addressing internal challenges that our system itself has created over time.

The current U.S. regulatory structure has been evolved together over 150 years – with act on top of act, initiative on top of initiative – so that today we have a series of individual regulations, each designed in response to specific circumstances and lacking an overarching set of guiding principles.

This creates a difficult environment for both regulators and those being regulated. Certainly, regulators must find ways to appropriately balance issues of investor protection, market integrity and systemic risk, as well as the historic tension between state and federal boundaries. In addition, our structure was born institutionally focused and now is adapting into one that regulates activities rather than entities.

As we heard from participants at our conference, these ambiguities generate inconsistent applications and reduce predictability of outcomes.

If we were starting fresh and had a blank page, no one would choose to draw a regulatory structure that resembles our current picture. Too often, however, discussions about ideal regulatory philosophy and structure have been reduced to a black and white debate of rules vs. principles. This oversimplification undermines the complexity of these issues, and is not constructive. As Chairman Bernanke said earlier this week, it is a mischaracterization to draw a "sharp distinction" between the approach to financial regulation in the U.K. and the U.S. In fact, the U.K.'s so-called "principles-based" system supplements their eleven principles with over 8,000 pages of rules, and our system in the U.S. utilizes some principles.

At Treasury, our goal is to elevate public thinking, so that we are not engaging in an either/or debate. The optimal construct should balance both rules and principles.

We need a new, modernized approach to regulation – one that is risk-based, globally oriented and flexible in scope. A prudent approach recognizes that we should be guided by principles at an overarching level. But regulation at the retail level will require some focus on rules, particularly to protect less sophisticated market participants, where investor protection must be a paramount focus.

Other key elements of this risk-based approach are:

- **Benefit-Burden Analysis** – We reject calling for regulation just for regulation's sake. Instead, we should engage in rigorous cost-benefit analysis of proposed and current regulation.
- **Materiality** – Regulators need to focus on issues that are material to investors and consumers. It is not simply a matter of collecting more material to review; rather, we should have measures in place to ensure that we are collecting appropriate, useful material.
- **Engagement between regulators and the regulated** – We need to facilitate a move for constructive dialogue between regulators and the entities they regulate. There should be a clear process for businesses to engage with their regulators when they have questions or need clarification.

In short, the modernized regulatory regime we seek should be, in the words of Chairman Bernanke, "principles-based, risk-focused, and consistently applied."

Other Components of Treasury's Competitiveness Initiative

We have already made some progress toward these goals.

For instance, earlier this year the President's Working Group on Financial Markets (PWG) – chaired by the Secretary of the Treasury – released principles and guidelines for private pools of capital. Private pools of capital, which include hedge funds, private equity and venture capital, exemplify the creativity and innovation that have helped make our financial markets the strongest in the world.

These principles and guidelines show that issues of systemic risk and investor protection are best addressed by a combination of market discipline and government oversight. They put forth a forward-looking, principles-based framework specifically designed to possess the flexibility to deal with global and dynamic nature of modern capital markets. These principles are not an endorsement of the status quo. They represent a uniform view from a broad group of key independent regulators that heightened vigilance is necessary and desired to address market developments. Treasury is currently actively engaged to ensure the adoption of these principles among each respective group of stakeholders – investors, pool managers, and creditors and counterparties.

Other important steps toward modernized regulation are being taken by the regulators, and Treasury strongly supports these steps.

The Sarbanes-Oxley Act of 2002 brought much needed reform and restored investor confidence. This successful piece of legislation is now being replicated around the world. Public companies have faced significant costs and challenges in the application of Sarbanes-Oxley's Section 404 internal control requirements, but we do not believe new legislation is required to amend it.

A reinterpretation is currently in progress, which will reduce unintended and unnecessary costs of Section 404 to small businesses. Treasury supports the work of the SEC and the PCAOB, who are actively engaged in replacing Auditing Standard 2 (AS2) with Auditing Standard 5 (AS5). These efforts will make the implementation process of Sarbanes-Oxley section 404 more risk-based. As a result, we are optimistic that this change will achieve the appropriate balance.

Another encouraging development that is underway at the SEC is the move to allow foreign companies to file their financial statements according to International Financial Reporting Standards (IFRS) without reconciling to US GAAP. As

contemplated, the U.S. would recognize both major accounting languages – US GAAP and IFRS.

However, the auditing industry faces other challenges, which if remedied will enhance our competitiveness. These solutions will take time to develop, but we will begin to lay the groundwork now for longer-term improvements.

As he announced in an op-ed this morning, Secretary Paulson has asked us to establish a non-partisan, public federal advisory committee that will develop proposals for creating a stronger, sustainable auditing profession. We have asked former SEC Chairman Arthur Levitt and former SEC Chief Accountant Donald Nicolaisen to co-chair this effort.

This soon-to-be-chartered committee will develop recommendations to address challenges facing this profession, such as industry concentration, competition, financial soundness, and employee recruitment and retention. The group will focus on three areas: (1) audit market competition and concentration, (2) human capital and (3) financial resources.

We will solicit a broad range of individuals representing views from the auditing profession, public companies, investor community, and other financial market participants. We intend to solidify membership this summer and anticipate a first meeting in the fall.

Auditing plays a unique role in our economy. A resilient and quality auditing profession is vital to the strength of our capital markets. Of course, management is ultimately responsible for a company's financial statements but requiring these companies to have their financial statements audited by an independent accounting firm enhances investor confidence. Strong, trustworthy auditing helps to encourage entrepreneurs and capital providers to take appropriate risks.

At the same time, Treasury will seek solutions that will serve to enhance financial reporting, make the presentation of financial information more meaningful and accessible to investors, and gain a better understanding of why financial restatements have increased over the past decade. We will also encourage managers, directors and investors to focus on long-term value creation while maintaining frequent and accurate financial reporting.

Conclusion

The steps I have outlined today represent the first in a series of initiatives that we will undertake to strengthen our bridge that connects suppliers and users of capital. The maintenance of this bridge will require that some tolls be paid. These tolls will pay for sound and effective regulation. They enable the free movement of capital, support appropriate protections for consumers and investors, while also encouraging innovation and entrepreneurship.

Our markets remain the most liquid, efficient and transparent in the world. And we are committed to maintaining that competitive edge.

The world is indeed changing, but we will use this as an opportunity to reassess our position and improve our leadership. As we undergo a period of construction, the work on our bridge will take time and require patience. These issues do not lend themselves to easy fixes. But I am confident that we will succeed, and the legacy we leave behind will be one of enhanced capital markets competitiveness.

Thank you.



PRESS ROOM

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May 17, 2007
HP-410

Treasury Identifies Financial Network of Ismael Zambada Garcia

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated six companies and twelve individuals in Mexico that act as fronts for Ismael Zambada Garcia, the leader of a Sinaloa, Mexico-based drug trafficking organization. Ismael Zambada Garcia was named as a Tier I drug kingpin by President George W. Bush on May 31, 2002, pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act).

"Zambada Garcia is one of Mexico's most powerful drug kingpins and a fugitive from justice," said Adam Szubin, Director of the Office of Foreign Assets Control. "Today's action further exposes the network of front companies and financial associates that Zambada Garcia uses to hide and launder his drug monies and cuts them off from the U.S. financial system."

The OFAC designation targets *Nueva Industria de Ganaderos de Culiacan S.A. de C.V.*, a large, Sinaloa, Mexico-based cattle and dairy company. Zambada Garcia's former spouse, Rosario Niebla Cardoza, and their four adult daughters, Maria Teresa, Midiam Patricia, Monica del Rosario, and Modesta Zambada Niebla, are also designated today on the basis of their role in the ownership or control of Zambada Garcia front companies and assets in Mexico. Other companies designated today are *Establo Puerto Rico S.A. de C.V.*, *Jamaro Constructores S.A. de C.V.*, *Multiservicios Jeviz S.A. de C.V.*, *Estancia Infantil Niño Feliz S.C.*, and *Rosario Niebla Cardoza A. en P.*

Ismael Zambada Garcia is a U.S. fugitive and the State Department has offered a \$5 million dollar reward for information leading to his arrest. In January 2003, the U.S. District Court for the District of Columbia returned an indictment against Ismael Zambada Garcia and two key lieutenants, Javier Torres Felix and his son Vicente Zambada Niebla. Javier Torres Felix was extradited to the United States in December 2006.

"The Zambada Garcia organization cannot hide behind front companies like the Sinaloa cattle and dairy business," said DEA Administrator Karen P. Tandy. "We're working with OFAC to expose these traffickers' front companies for what they really are – not legitimate businesses, but illegal cash cows that fuel the drug trade, its violence and corruption. We're relentlessly following the financial trail to deprive these traffickers of their assets, draining the lifeblood from their criminal drug enterprises."

This action is part of an ongoing U.S. Government effort under the Kingpin Act to apply financial measures against significant foreign drug kingpins worldwide. More than 300 businesses and individuals associated with the 62 drug kingpins have been designated since June 2000. Today's designation would not have been possible without key support from the Drug Enforcement Administration.

Today's designation action freezes any assets the 18 designees may have under U.S. jurisdiction and prohibits U.S. persons from conducting financial or commercial transactions with these individuals and entities. Penalties for violations of the Kingpin Act range from civil penalties of up to \$1,075,000 per violation to more severe criminal penalties. Criminal penalties for corporate officers may include up to

30 years in prison and fines of up to \$5,000,000. Criminal fines for corporations may reach \$10,000,000. Other individuals face up to 10 years in prison for criminal violations of the Kingpin Act.

REPORTS

- Chart of Zambada Garcia's financial network

Zambada Garcia Financial Network

All individuals depicted in this chart are Mexican nationals.

Criminal Associates



Javier TORRES FELIX
(a.k.a. Horacio TAMAYO TORRES)
DOB 19 Oct 1960
POB Mexico

Extradited to U.S.
2006



Ismael ZAMBADA GARCIA
(a.k.a. Jeronimo LOPEZ LANDEROS)
"El Mayo Zambada"
DOB 01 Jan 1948
POB Sinaloa, Mexico
R.F.C. # ZAGI-500130

Designated by the President on
May 31, 2002 as a Tier I drug kingpin pursuant to
Foreign Narcotics Kingpin Designation Act

Key Family Members



Vicente ZAMBADA NIEBLA
(a.k.a. Vicente SOTELO GUZMAN)
DOB 24 Mar 1975
POB Sinaloa, Mexico
R.F.C. # ZANV-750324-NYS



Zynthia BORBOA ZAZUETA
DOB 30 Jan 1975
CURP # BOZC750130MSLRZNO9
R.F.C. # BOZZ-750130-LK4



Maria Teresa ZAMBADA NIEBLA
DOB 17 Jun 1969
CURP # ZANT690617MSLMBR01
R.F.C. # ZANT-690617-B73



Rosario NIEBLA CARDOZA
DOB 6 Oct 1946
CURP # NICR461006MSLBR509
R.F.C. # NICR-461006-T36



Midiam Patricia ZAMBADA NIEBLA
DOB 4 Mar 1971
CURP # ZANM710304MSLMBD14
R.F.C. # ZANM-710304-RN2



Monica del Rosario ZAMBADA NIEBLA
DOB 2 Mar 1980
CURP # ZANM800402MSLMBN02
R.F.C. # ZANM-800402



Modesta ZAMBADA NIEBLA
DOB 22 Nov 1982
CURP # ZANM821122MSLMBD07
R.F.C. # ZANM-821122-H87

Principal Companies



MULTISERVICIOS JEVIZ S.A. DE C.V.
Culiacán, Sinaloa, Mexico



ROSARIO NIEBLA CARDOZA A. EN P.
(d.b.a. GASOLINERA ROSARIO)
R.F.C. # NICR-461006-T36
Culiacán, Sinaloa, Mexico



NUEVA INDUSTRIA DE GANADEROS DE CULIACÁN SA DE CV
a.k.a. LECHERIA SANTA MONICA
R.F.C. # NIG-8802029-Y7
Culiacán, Sinaloa, Mexico
(Maintains branches in 4 different states)

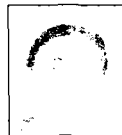


ESTABLO PUERTO RICO SA DE CV
R.F.C. # EPR-000322-UM9
Culiacán, Sinaloa, Mexico



JAMARO CONSTRUCTORES SA DE CV
Culiacán, Sinaloa, Mexico

Key Financial Officers



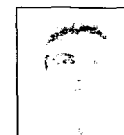
Carmen Amelia ARAUJO LAVEAGA
DOB 29 Jan 1967
CURP # AALC670129MSLRVR00



Jesus Alfonso LOPEZ DIAZ
DOB 30 Sep 1962
CURP # LODJ620930HSLPZS09
R.F.C. # LODJ-620930

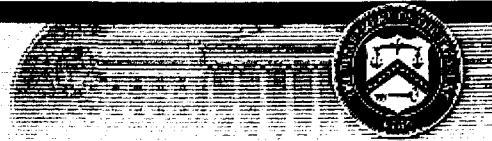


Santos BUENO GARCIA
DOB 27 Mar 1964
CURP # BUGS640327MSLNRN01



Jose Antonio PEREGRINA TABOADA
DOB 5 Aug 1958
CURP # PETA580805HSLRBN09

PRESS ROOM



May 17, 2007
HP-411

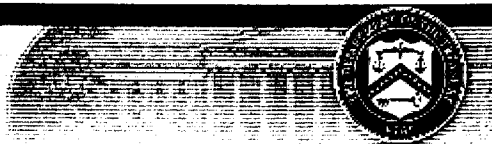
**Statement by Secretary Paulson on
World Bank President Paul Wolfowitz**

"I commend Paul Wolfowitz for his distinguished career as a dedicated public servant. His efforts to fight poverty throughout the world, the progress he's effected for the people of Africa, his bold efforts to fight corruption, and his work on the World Bank's other critical priorities have made a significant difference across the globe and in the lives of many. His stewardship of this important institution has been marked by enthusiasm and dedication to the critical mission of the Bank.

"The World Bank is an important institution for helping to lift people out of poverty – a goal that America has been very generous in supporting.

"I intend to move quickly to help the President identify a nominee to lead the World Bank going forward. I will consult my colleagues around the world as we search for a leader who will continue to focus the Bank on creating opportunities for the world's poorest by assuring that resources are directed to effective, efficient, well-coordinated projects. We at Treasury look forward to working with our colleagues at the Bank to ensure a smooth transition process."

PRESS ROOM



May 18, 2007
HP-412

UPDATE:

U.S. and China to Hold Second Meeting of the Strategic Economic Dialogue in Washington Next Week

Washington, DC –Treasury Secretary Henry M. Paulson, Jr. will host the second meeting of the U.S.-China Strategic Economic Dialogue next week. Secretary Paulson will be joined by Agriculture Secretary Mike Johanns, Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Michael Leavitt, Transportation Secretary Mary Peters, Energy Secretary Sam Bodman, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, Deputy Secretary of State John Negroponte, and other Administration officials.

In addition, Federal Reserve Chairman Ben S. Bernanke will participate in the Strategic Economic Dialogue discussions. The opening session will include a presentation by the Honorable Henry Kissinger.

The second meeting of the U.S.-China Strategic Economic Dialogue will review progress on work plans agreed to at the December meeting and continue discussions in areas including policies to address economic imbalances to ensure continued global growth, China's economic development and further integration into the world trading system, greater openness of markets, cooperation on energy security and the environment, and innovation. The dialogue was launched by Presidents Bush and Hu in September 2006.

The talks will take place May 22-23 at the Andrew W. Mellon Auditorium.

The following events are open to media with SED credentials only:

What

Opening Statements and Introductions

When

Tuesday, May 22, 2007, 9:15 a.m. EDT

Where

Andrew W. Mellon Auditorium

1301 Constitution Ave., NW

Washington, DC

Note

SED Credentialed press may begin setting up at 5:00 a.m., equipment must **be in place for security sweep no later than 6:00a.m.**

What

Presentation by the Honorable Henry Kissinger

When

Tuesday, May 22, 2007, 9:45 a.m. EDT

Where

Andrew W. Mellon Auditorium

1301 Constitution Ave., NW

Washington, DC

What

Family Photo

When

Wednesday, May 23, 2007, 8:00 a.m. EDT

Where

Andrew W. Mellon Auditorium

1301 Constitution Ave., NW
Washington, DC

Note

SED credentialed photographers may begin setting up at 5:00 a.m., equipment must be in place for security sweep no later than 6:00a.m.

What

Closing Statements

When

Wednesday, May 23, 2007, 10:45 a.m. EDT

Where

Environmental Protection Agency
East Building
1201 Pennsylvania Ave., NW
Washington, DC

Note

SED Credentialed press must be pre-set by 10:00a.m.

What

U.S. Delegation Press Conference

When

Wednesday, May 23, 2007, 11:30 a.m. EDT

Where

Environmental Protection Agency
East Building
1201 Pennsylvania Ave., NW
Washington, DC

Links to press materials

DECEMBER:

11/28/2006 U.S. and China to Hold First Meeting of the Strategic Economic Dialogue in Beijing Next Month <http://www.treasury.gov/press/releases/hp180.htm>

12/13/2006 Introductory Remarks by Secretary Henry M. Paulson, Jr. at the U.S.-China Strategic Economic Dialogue

<http://www.treasury.gov/press/releases/hp196.htm>

12/13/2006 Opening Statement by Secretary Henry M. Paulson, Jr. before the Opening Session of the U.S.-China Strategic Economic Dialogue

<http://www.treasury.gov/press/releases/hp197.htm>

12/15/2006 Fact Sheet <http://www.treasury.gov/press/releases/hp205.htm>

12/15/2006 Statement from Treasury Secretary Henry M. Paulson, Jr. at the Closing of the U.S.-China Strategic Economic Dialogue

<http://www.treasury.gov/press/releases/hp200.htm>

12/15/2006 Statement by Treasury Secretary Henry M. Paulson, Jr. at the Closing Press Conference <http://www.treasury.gov/press/releases/hp201.htm>

SEPTEMBER:

09/20/2006 U.S.-China Statement on Strategic Economic Dialogue

<http://www.treas.gov/press/releases/hp105.htm>

09/20/2006 Fact Sheet on Creation of the U.S.-China Strategic Economic Dialogue

<http://www.treasury.gov/press/releases/hp107.htm>

09/21/2006 Strategic Economic Dialogue Press Briefing Transcript

<http://www.treasury.gov/press/releases/hp108.htm>

PRESS ROOM



November 28, 2006
HP-180

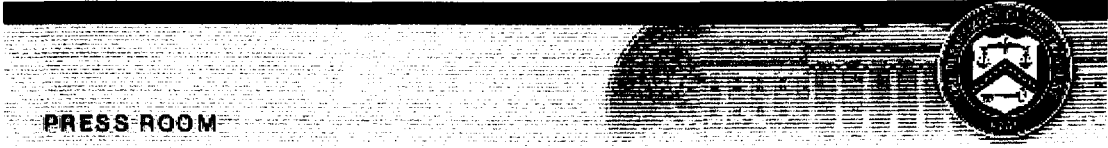
**U.S. and China to Hold First Meeting of the Strategic
Economic Dialogue in Beijing Next Month**

Washington, DC –Treasury Secretary Henry M. Paulson will lead a delegation to Beijing next month for the inaugural meeting of the U.S. – China Strategic Economic Dialogue. Secretary Paulson will be joined by Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt, Energy Secretary Sam Bodman, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, and other Administration officials.

In addition, Federal Reserve Chairman Ben S. Bernanke will join the Strategic Economic Dialogue discussions.

The dialogue was launched by Presidents Bush and Hu in September as an overarching forum for discussing ways the U.S. and China can work together to ensure that citizens in both countries benefit fairly from the growing bilateral economic relationship. While in Beijing, the U.S. delegation will hold a number of meetings with Vice Premier Wu Yi and other Chinese counterparts to discuss a range of issues including assuring continued global growth, China's economic development and further integration into the world trading system, stable energy markets, and cooperation on the environment. The U.S. delegation will also meet with Chinese President Hu and Premier Wen while there.

The talks will take place December 14-15 in Beijing.



PRESS ROOM

December 13, 2006
HP-196

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

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

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

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

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

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

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

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

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



PRESS ROOM

December 13, 2006
HP-197

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

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

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

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

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

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

Having spent most of my career working in financial markets around the world, it is

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

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

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

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



PRESS ROOM

December 15, 2006
HP-205

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

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

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

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

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

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

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

PRESS ROOM



December 15, 2006
HP-200

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

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

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

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

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

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

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

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

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

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



PRESS ROOM

December 15, 2006
hp-201

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

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

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

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

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

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

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

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

We leave here with greater confidence that we are on the right path. The Strategic Economic Dialogue is focused on long-term challenges, but we need tangible

successes to measure our progress along the way. With that in mind, we have established a number of important workplans to focus our efforts to tackle a number of significant issues, including opening of services, health care, energy and the environment, transparency, investment and aviation.

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

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

PRESS ROOM



September 20, 2006
HP-105

**The Joint Statement
between the United States of America and The People's
Republic of China
on the Inauguration of the U.S.-China Strategic Economic
Dialogue**

Today, United States and China are pleased to announce the establishment of the U.S.-China Strategic Economic Dialogue, which was proposed by the United States and agreed to by China, implementing an important agreement reached by President Bush and President Hu Jintao. U.S. Treasury Secretary Paulson is visiting China on 19-22 September to discuss the establishment of the Strategic Economic Dialogue. Vice Premier Wu Yi met with him and jointly announced its formation. President Hu and Premier Wen Jiabao will be meeting with Secretary Paulson.

Given growing economic globalization and increasing bilateral economic relations, a high level strategic economic dialogue between the United States and China will promote economic cooperation and the growth of U.S.-China relations. Its establishment will have a positive impact on world economic development as well as global economic stability and security. The dialogue will focus on bilateral and global strategic economic issues of common interests and concerns. Both sides intend to meet twice a year in alternate capitals.

Existing bilateral dialogues and consultation mechanisms, such as the Joint Commission on Commerce and Trade, the Joint Economic Committee, and the Joint Commission on Science and Technology, will remain unchanged and continue to play their positive and important role in promoting U.S.-China economic and trade cooperation.

Both President Bush and President Hu will strongly support and take an active role in the Strategic Economic Dialogue.



September 20, 2006
HP-107

Fact Sheet Creation of the U.S.-China Strategic Economic Dialogue

President George W. Bush and President Hu Jintao have agreed to create a Strategic Economic Dialogue between the United States and China. Reflecting the growing relationship between the U.S. and Chinese economies, this dialogue will occur at the highest official levels and is the first of its kind. Further, it will provide an overarching framework for ongoing productive bilateral economic dialogues and future economic relations. It will examine long-term strategic issues, as well as provide coordination among the specialized continuing dialogues. The Strategic Economic Dialogue will also be a forum for discussing ways the United States and China can work together to address economic challenges and opportunities as responsible stakeholders in the international economic system.

The essential goal of this dialogue is to ensure that the benefits of our growing economic relationship with China are fairly shared by citizens of both countries.

The Strategic Economic Dialogue will convene semi-annually in the United States and China, with the first meeting occurring before the end of 2006. Each of the two Presidents will strongly support and take an active role in the strategic economic dialogue.

President Bush has designated Secretary of the Treasury Henry M. Paulson to lead the U.S. side of the dialogue. National Economic Adviser Al Hubbard and other members of the President's Cabinet will join Secretary Paulson. Additional U.S. agencies will include Commerce, U.S. Trade Representative, State, Health and Human Services, the Environmental Protection Agency, Energy and others. Deborah Lehr will serve as Special Envoy to the Strategic Economic Dialogue to ensure it receives the attention and continuity necessary to produce meaningful results.

President Hu has designated Vice Premier Wu Yi to lead the Chinese side of the dialogue. In that role, she has been given full decision making authority across all aspects of the Chinese economy. To demonstrate the importance of the Dialogue, the Chinese government has created its largest and the highest ranking inter-ministerial working group which Vice Premier Wu Yi will chair, supported by Foreign Minister Li Zhaoxing, Finance Minister Jin Renqing, and Deputy Secretary General of the State Council Xu Shaoshi, as well as the Ministries of Commerce, Agriculture, Health, and Information Industries, the various financial regulators, the National Development and Reform Commission, the People's Bank of China and others.

The Strategic Economic Dialogue will help to ensure leaders of the two countries can address critical economic challenges facing their economies, have a forum for discussing cross-cutting issues, and can make the most productive use of the existing bilateral commissions and dialogues. Likely themes of the discussions will include: building innovative societies, seizing the opportunities of global economic integration to assure sustained growth, and the economics of energy and conservation. The United States will also support China in China's goal of building a consumer-driven economy rooted in open markets. The intent of this dialogue is to discuss long-term strategic challenges, rather than seeking immediate solutions to the issues of the day.

The discussion of long-term structural issues in the Strategic Economic Dialogue will provide a stronger foundation for pursuing concrete results through existing

bilateral economic dialogues and ensuring citizens of both countries benefit fairly from the growing bilateral economic relationship. The new strategic dialogue will provide support and guidance for these existing bilateral economic forums, which will remain essential to managing specialized aspects of the interdependent U.S.-China economic relationship. These high level discussions will enhance, not diminish these existing forums. Bilateral issues will continue to receive full attention, including pressing China for floating exchange rates, greater intellectual property rights, and increasing market access. Existing economic and related dialogues include:

- The Joint Commission on Commerce and Trade (JCCT) between the U.S. Department of Commerce, the U.S. Trade Representative, and the Chinese Vice Premier responsible for trade.
- The Joint Economic Committee between the U.S. Department of the Treasury and the Chinese Ministry of Finance.
- Joint Commission on Science and Technology between the U.S. Director of the Office of Science and Technology Policy and the Chinese Ministry of Science and Technology.
- The Economic Development and Reform Dialogue between the U.S. Department of State and China's National Development and Reform Commission.
- The Energy Policy Dialogue between the U.S. Department of Energy and China's National Development and Reform Commission.
- The Global Issues Forum led by the U.S. Department of State and China's Ministry of Foreign Affairs.
- The Healthcare Forum between the U.S. Department of Health and Human Services and the Chinese Ministry of Health.
- The Asia-Pacific Partnership on Clean Development and Climate, which brings together China, the United States, Australia, India, Japan, and Korea.



PRESS ROOM

September 21, 2006
HP-108

**Treasury Secretary Henry Paulson Press Briefing
Following the Announcement of
The US-China Strategic Economic Dialogue**

Beijing, China

(The following has been edited to remove most unintelligible sections but may contain misunderstood or unintelligible words.)

SECRETARY PAULSON: Good evening, everyone. Sorry to keep you waiting. The banquet went a little longer than expected, but it was a good banquet.

As I said at the press conference that Madame Wu and I had, the relationship between the U.S. and China is the most important bilateral economic relationship in the world today. And that is why we have created this unprecedented dialogue, this unprecedented engagement that has the active, the ongoing support of both President Bush and President Hu. So we start there. The vision is a simple vision, and that is to take a long-term, a strategic view to managing this relationship where we focus on fundamental, long-term issues. We address these issues, talking about identifying areas of mutual benefit and building on those, dealing with the conflicts and the tensions on a long-term basis, and of course, addressing the short-term issues. Because only by addressing the short-term issues can we establish the confidence on both sides that is going to get us keep the relationship on track. So that's going to be very important.

Now, what President Bush asked me to do was to coordinate across the various economic issues. And it's important to do this, because only by doing this will we be able to prioritize it in such a way that I will be able to represent the best interests of the American people as effectively as possible.

And that is very important because as we look forward and as we manage this relationship, it's going to be very important that the benefits that come from economic growth are shared equitably in both countries. And regrettably, there's a sense in the U.S. that the Chinese don't play fair when it comes to trade and economics. And so it's going to be my job to get short-term results at the same time we're keeping our eye on the long-term objective. So with that, why don't I throw it open to questions? Yep. Yeah.

QUESTION: Some people think that on some level, this is like a consolation prize because you're going to leave here without anything concrete on the currency.

Can you address that and also can you address what we're hearing from trade groups in the States who are concerned about what they say is a softening line on current trade.

SECRETARY PAULSON: All right. Yeah. Okay. Well, let me take both issues. First of all, in terms of the objective here, I think I've been pretty consistent from day one of saying when you're talking about something as important and fundamental as an economic relationship. I don't think I ever indicated to anybody that I was going to make any first trip to China as the Treasury secretary and bring home a solution to a long-term economic issue or come here and magically negotiate something. So this is -- when you talk about what we've accomplished, let's not confuse process with results. When we met the other day, I think you or someone who was with you -- I think it might have even been you, Peter -- asked the question and said, "Well, how are you going to judge your success?" And I said that I've got

two and a half years, and I was going to judge my success by firstly putting in place a process where we had a better, more constructive tone and we've laid the framework for a relationship that's going to have to stand the test of many years.

And secondly, I knew there were going to have to be some results in the short term. And you always have to get through the night if you want to get to the longer term. So again, let's not confuse results with process. I think what we've done here is put a process in place which, based upon my experience, I believe gives us the best chance of getting the results that we're going to need to get over the next two years and for many years in the future. This is, I think, an important step, and it's a step that maximizes our chance of getting results.

To me, the key thing always in working with the Chinese is to be able to get access to all the right people at the right level and have a process where there's a real discipline. And the fact that we will have this dialogue in place and we'll have the big meetings twice a year and a lot of work in between gives us the best chance of maximizing our success. But again, I never expected and I think I've been pretty clear in saying that I never expected anything other than a first set of discussions. Yes?

QUESTION: I have three questions to ask.

SECRETARY PAULSON: Well, I think what we'll do is I may ultimately want you to ask all three questions, but I'm not sure. I may be here for a half an hour or 45 minutes or whatever, but I want to give everybody else a chance to ask questions, too. So I'll let you ask your first question and then I'll come back if we have time for others.

QUESTION: Okay. Which one do you prefer, the weak dollar or the strong dollar, and why?

SECRETARY PAULSON: What did you say?

QUESTION: Which one do you prefer, the weak dollar or the strong dollar, and why?

SECRETARY PAULSON: Okay. Well, I would say to you that – and I think I've been pretty clear on this – a strong dollar is in our nation's interest. And our currency values are always determined – and I believe they should be determined – in a fair, competitive marketplace based upon underlying economic fundamentals. And so what we do in the United States and what I very much advocate is policies that are going to increase confidence, maintain confidence in the U.S. dollar and in our economy. Yes? Right.

QUESTION: What steps have you taken or are you going to take to try to sell this project to Congress?

SECRETARY PAULSON: I don't think I have a need to sell this project to Congress. This is a process. Okay? And I think it's the President's job and it's my job to design a process for working with the Chinese that will give us the best results. And I think Congress is going to judge me by the results that I get and this administration gets over a period of time. I know there's a short-term mentality in the world today, but I don't think many people are going to judge me by what comes out of one visit. And if they do, heaven help this country. Yes...

QUESTION: Thank you. You talk about the need for China to become a flexible exchange rate regime. In your view, what do you think is a more flexible exchange rate regime? For example, would it be expanding the daily band or what would that be?

SECRETARY PAULSON: The -- of course in the longer term, we all know what it is. Okay? In the long term it is an exchange rate that is where the currency's value is set in the competitive marketplace. We're not going to be able to get there until

we get China to get to the point where they have capital markets that are really competitive in an open financial system. That isn't achievable right away. I would say right now I, when I'm looking at something short of the perfect outcome, which is a freely tradable currency, I'm not going to get all concerned about what technique they use to get flexibility. I'm going to know flexibility when I see it and so are you. Yes?

QUESTION: Mr. Secretary, could you address the recent events in Thailand, the military takeover, and whether you fear that this could lead to instability both in the Thai economy and more further afield, in the regional economy as a whole?

SECRETARY PAULSON: I would say I've been traveling so I'm not on top of this on a minute-by-minute basis, but I would note that there's been very little dislocation in the Thai capital markets. No spill over in the global capital markets. So it's always very regrettable when you see a change take place this way in a democracy. From that standpoint it's something we've all got to look at with regret. But in terms of the economic impact – and I don't mean to say that an adverse development isn't possible – but if I'm thinking about the top five or six things I'm worrying about today, that isn't on the list. Yes?

QUESTION: Thank you. I'm from China Business News. I wonder, Citibank tried to merge with Guangdong Development bank, but they faced a lot of problems from China --

(Translated from Chinese) There are many restrictions from the Chinese government on the potential deal of Citigroup to acquire Guangdong Development Bank. How do you comment on this as the former Chairman and CEO of Goldman Sachs? In addition, can you update the status on the issue of possibly cutting off financial connections with Iran? Thank you.

SECRETARY PAULSON: Okay. Remember, I said one question, but I'm going to, just for you, do two questions, but that's the only one. From now on we're going to do one question. Now, in terms of the Citigroup transaction, which I haven't followed closely on a day-to-day basis, I will just say to you that I am a very strong advocate of this country opening up its capital markets to foreign investment. I believe when they open up and let foreign competition in, the biggest beneficiary will be China and it will mean more jobs in the financial services industry for Chinese people. It will mean better training. It will mean a more competitive capital market that will have all sorts of other benefits for the economy. And I've noticed as I've spent time in markets around the world that those economies that have healthy capital markets are stronger and it really takes a healthy capital market for long-term success. I can't think of a single example anywhere of a situation where a country has a strong capital market system and they haven't opened themselves up to competition. So that one, I see pretty clearly.

Now, in terms of the Iranian situation, I have nothing new to report other than what I said the other day, which is I'm a big believer in the fact that the role of the Treasury Secretary of the U.S. and financial ministers around the world is to keep our financial system safe, sound, and secure. And you can't have a secure financial system, you can't preserve the reputation of a financial system if you let people come in and abuse it and abuse it for illegal activities of any kind, whether WMD proliferation or terrorism. Iran is abusing the financial system.

Now as far as the effort I think you're referring to, there are two efforts and they're related, but they are different. Bank Saderat has been sanctioned. Separate and apart from that we had noticed that the Iranians were using a series of devices that were very misleading to infiltrate the system and trick a number of banks around the world. And so we went around and we talked to those banks and we talked to them as part of an educational program to help them understand the risks. And as far as I know, they all were very grateful for the assistance. A number of them learned things, and I think that that will be an important step in helping maintain the integrity of our banking system around the world. Yes?

QUESTION: Mr. Secretary, you alluded to voices in the U.S. who see China as an

unfair trader, and you're trying to discourage people from expecting immediate results. But when would it be appropriate for people in the U.S. to expect some concrete results from this new channel that you've opened up today?

SECRETARY PAULSON: I wouldn't want to predict when there should be the concrete results, but I'm not famous for being very patient. Okay? Check with anybody who's worked with me. But I really don't believe it is appropriate to carry on negotiations in a public forum. Behind closed doors I'm pretty aggressive as a persuader, as an advocate. But I've spent my career doing negotiations, and where I come from, it's appropriate to do negotiations in private. Yes, the man at the back.

QUESTION: I'm from [inaudible] TV from Korea. My question is a little bit out of out of theme, but I'll ask something else about the -- is there any specific time frame, timetable for investigation into the Banco Delta Asia case as a sanction on the DPRK. And when you are --

SECRETARY PAULSON: I missed your question. Is there a time frame for -- for what case?

QUESTION: As a sanction on the DPRK, but was there any specific timetable for investigation into Banco Delta Asia? And when you met Korean President Mr. Roh, was there a request from Mr. Roh to hasten the speed of investigation on Banco Delta Asia?

SECRETARY PAULSON: Let me say that I met with President Roh. It was a very good meeting, but it was a confidential meeting. And again, it would be inappropriate for me to divulge publicly what I'm talking about when I'm meeting with an important head of state or when I'm meeting with anyone in private. That's number one. But to your question, no, there is no prescribed time frame. This is a law enforcement matter, and it will take as long as it takes to resolve it appropriately. Thank you. Yes, the woman in the farthest back.

QUESTION: Okay. Thank you. I'm from Xinhua News Agency. I know that you have met with Minister Ma Kai this afternoon.

SECRETARY PAULSON: Yes.

QUESTION: Yes. And later you will meet with the Chinese top leaders Hu Jintao and Wen Jiabao. So we just want to know that China has to do a lot of work to push forward its reforms. So what kind of message do you want to deliver to the Chinese top leaders, and how do you judge China's efforts to push forward its reforms? Thank you.

SECRETARY PAULSON: Yeah. Well, thank you for that question, because I think the one thing I have said that I'm going to talk about, because I don't think it's divulging any confidences and it's pretty clear how I feel, I'm going to encourage them to move ahead with all of their reforms and the things they said they were going to do and move forward even more quickly. And when I look at China and their reforms, what they've done is remarkable, and they move very quickly. I noticed it years ago in my former job when we'd work on a privatization in China. Something that historically would have taken well over a year in another country, we would sometimes get done in six months here.

The pace of change has been quick and it's been remarkable. But my view is that the biggest danger that China faces is not that they will go ahead too quickly with the reforms, but that they won't go ahead quickly enough. Because the economy is so big and complex that it's becoming, in my judgment, increasingly difficult to run it with administrative procedures, and particularly when they are partway between the planned economy and a market-driven economy. So the biggest message I would give is congratulations on what you've accomplished, and it will be in our benefit and your benefit if you move ahead even more quickly, because then you will do better. And when you do better, we in the U.S. will do better because our two economies are very interdependent. Okay? You're going to get your question in a

minute. But I'll let this man behind you -- okay.

QUESTION: Yes, thank you. I'm from *China Business Newspaper*. I want to ask you some questions in Chinese.

SECRETARY PAULSON: Okay. Let me just see if I can figure out -- I'm not great at these high-tech things here, but I think I'll figure it out.

QUESTION: (Translated from Chinese) Thank you. I notice from your news documents that neither People's Bank of China nor China Securities Regulatory Commission nor China Banking Regulatory Commission is included in the dialogue mechanism. Before your trip to China, the Chinese government released some new regulations on foreign financial institutions that hope to enter China and on joint ventures in the investment banking sector. These new regulations raise the entrance criteria for foreign companies that hope to invest in China. What do you think is the most imperative issue that needs to be solved in China's opening of the banking sector? Why aren't Chinese financial regulatory bodies included in the dialogue mechanism? Another question is what was the result of your Hangzhou trip? Thank you.

SECRETARY PAULSON: Well, I got your question. The financial supervisors who are looking at the markets in China have a big and a complex job. I've got to begin by saying that it took the United States many, many years to establish the capital markets we have in the United States. So I know this isn't easy. But the -- in order to get the Chinese capital markets where they're going to need to get, I'd said that I really do believe they'll get there quicker if they let in foreign investors and let foreign firms come in and establish businesses there.

But to get more specifically to your question, the issues they confront are a domestic market that is really an equity market that is quite small relative to the size of the country. There's very little of an institutional market to speak of. It's largely a retail market. Most of the equities that have been issued in this market are state-owned enterprises where there's still the big overhang. Many of the best offerings have been sold outside of China, and there hasn't been enough high-quality equity issuance in China. The quality of the local firms is by and large not strong. Many of them have -- don't have strong financial positions. Many of them aren't well managed. So it is an equity capital market that's underdeveloped relative to the size of the Chinese economy. And the domestic bond market is even more primitive in its development. But it could be very important to develop a bond market because that will take some of the pressures off of the banks. Yes?

QUESTION: Thanks. Some members of Congress have promised to put through their legislation imposing some sanctions on Chinese products. If your visit doesn't give them what they want, what do you think the possible action is?

SECRETARY PAULSON: Well, I don't want to speculate about actions others may take. I know you're talking about Senators Schumer and Graham. They are knowledgeable about China. They share many objectives that I share. I don't agree with the tactics. You'll never have me favoring protectionist legislation and I will try to talk them out of it. Whether I'll be successful or not, I don't know. Yes?

QUESTION: Thank you. I'll speak Chinese. Can we...? (Translated from Chinese) Thank you. From your answers to the questions, I can see that you are very familiar with the current Chinese economic situation and economic development. As far as I know, you have visited China about 70 times. My question is what is your source of knowledge on China's economic situation? What's your personal impression of China's current situation after your 70 or so visits to China? Thank you.

SECRETARY PAULSON: Well, my source of knowledge is talking to a lot of people, reading a lot of things, but the best knowledge comes from being right here and having done business, having, as an investment banker, worked with the government on privatizations, worked with the private companies in the marketplace and experienced it on a firsthand basis. And I am a -- like everyone

else I know who has spent time here – I'm a huge proponent of and believer in the Chinese economy. And to me it starts with the people, the great human resource for quality and the talent and the commercial talent of the people. And then you get to a group of leaders who are very smart and knowledgeable, pragmatic, results-oriented, looking everywhere for best practices, finding things that will work and implementing them. And so it is a strong and growing economy.

My own view is, though, that you can't take the past success and automatically extrapolate it and just assume it's going to keep growing like this and pass all the other economies in the world, because this economy still needs to make the transition from being based on low-cost labor and assembling and manufacturing well-value-added products to developing a more complex economy. And I have every confidence that will happen. But in my judgment, for that to happen, you'll have to continue to make the transition to using market-based devices as opposed to administrative. And that means speeding up the reforms. It doesn't take any magic. Your leaders have already identified what needs to be done. They stated what needs to be done. I believe they're right. They just have to do it.

MODERATOR: Last question.

SECRETARY PAULSON: Okay. Last question. Who hasn't asked a question? Only put your hand up if you haven't asked one. Yes?

QUESTION: Secretary Paulson, you and Madame Wu have each been nominated to represent the U.S. and China to have the strategic talks. What do you think about the fact that she is not exactly your counterpart in terms of government hierarchy? I mean, she is a vice premier above the ministerial level. What do you think this says about the Chinese government's attitude towards this strategic topic? Thank you.

SECRETARY PAULSON: First of all, let me say I have got huge confidence in Madame Wu. She knows how to get things done. She's pragmatic. She's aggressive. As we say in the U.S., she comes to play every day. And so she wants results. That's number one. And number two, Madame Wu and I are just two parts of this, of a process – a process that begins with our presidents and a process where our presidents are going to be involved. It is a process where I am going to have access and going to be having substantive conversations on Friday with your premier, Wen Jiabao, and with President Hu Jintao. And where we're going to have a ministerial group, an inter-ministerial group in China that is at a very senior level. And again, it's been my experience in China that to get things done, you just don't go to one person to get it done; you go to a number of people. And so to me, the important part of this process was not to have different parts of our economic relationship "siloes" but to be able to have broad access to senior people where we could talk about issues that are all interrelated in a more complex way.

And so again, I'm very enthused about the process. But you're not going to get me declaring a victory because we set up a process. A process is only a process. It's a means to the end, and this process will be judged by the results it achieves.

Thank you all very much for staying here so late and have a good evening.

MODERATOR: Thank you.



PRESS ROOM

May 19, 2007
HP-1302

Statement by Deputy Secretary Robert M. Kimmitt following Meeting of G-8 Finance Ministers

Werder (Havel), Germany--The G-8 Finance Ministers met today to help prepare for the Leaders' Summit in Heiligendamm. We covered a wide range of important topics for the international monetary system, led by the German Presidency and our very able chair, Minister Steinbrück. I also had the opportunity to meet with many of colleagues, including from Africa, on a bilateral basis.

As always, the global economic outlook and prospects for the U.S. economy were in the foreground. The global economy continues its strong performance –indeed, the strongest in three decades. I informed my colleagues that our fiscal deficit continues to decline and the U.S. economy is making the transition to a sustainable growth path. While the economy grew modestly in the first quarter, we are confident it will return toward trend over the year. We see evidence that housing is stabilizing and that rising delinquencies in the sub prime mortgage market have not spread more generally. Inflation remains contained and the job market is strong.

One of the issues I was keen to raise with the G-8 was the ongoing need for open trade and investment climates in our countries. The United States continues to push for an ambitious outcome to the Doha Round. The United States also has a longstanding commitment to economic openness to empower individuals and to generate economic opportunities and prosperity for all. In statements last week by President Bush and Secretary Paulson, the United States has strongly reaffirmed that commitment.

Foreign firms in the U.S. alone employ more than 5 million workers and account for almost 6 percent of our GDP. At the same time, rising protectionist sentiment – both at home and abroad – in the fields of trade and investment is worrisome. With the accumulation of large financial resources in many governmental coffers around the world, some of which are in turn being recycled into FDI abroad, protectionist pressures could become more acute. The G-8, individually and collectively, must seek policies that demonstrate the benefits from open trade and investment, while avoiding the lost jobs and opportunities that would result from increased protectionism.

We discussed our common objective to promote a thriving and competitive hedge fund industry as part of a growing global financial system while maintaining investor protection and promoting financial stability. We were briefed today by the Financial Stability Forum, and I commend the Forum's approach to hedge funds in the global markets. Private pools of capital, including hedge funds, have contributed significantly to the efficiency of capital markets. Recognizing the important role of these private pools of capital, the President's Working Group on Financial Markets issued principles and guidelines to further enhance vigilance and market discipline. Price discovery, liquidity, and risk dispersion are vital components in this effort, as are maintaining investor protection and promoting financial stability.

As we learned during the emerging market crises of the 1990s, many developing countries faced large national balance sheet vulnerabilities because they lacked domestic capital markets and could not borrow in their own currencies. The G-8 this year placed on its agenda the issue of developing local currency bond markets in emerging market economies. This is a good issue for the G-8 because there is a wealth of experience in our countries that can be deployed, in conjunction with the good work of the International Monetary Fund and World Bank, to help emerging

markets develop more robust financial markets and achieve more durable growth and financial stability. I am pleased to announce that today we endorsed an action plan for developing local bond markets in emerging market economies and developing countries. The action plan maps out concrete measures to be taken in six areas: market infrastructure, derivatives and swap markets, institutional investor base, technical assistance, information availability, regional initiatives and less developed countries.

I was pleased to be able to join in the discussion of good financial governance in Africa at last night's outreach dinner with our colleagues from Cameroon, Ghana, Mozambique, Nigeria, and South Africa. Good governance is absolutely critical for economic development. I would like to highlight just one of these issues, which is maintaining sustainable debt levels in the poorest countries. Official lending activities throughout the world, particularly in Africa, threaten the hard-won gains from recent debt relief initiatives. It is critical that both borrowers and creditors agree on an approach to debt sustainability that prevents the reemergence of debt distress.

We discussed our commitments to improve energy efficiency and security, and to address climate change issues through actions that accelerate the development of clean energy technologies without undermining the economic growth that will be necessary to deploy those technologies. I highlighted the United States' commitment to improving energy efficiency and security through such efforts as President Bush's Twenty in Ten initiative.

Finally, we remain engaged in strengthening the international framework against illicit finance, and developing our national authorities and capabilities to take effective economic and financial action against the global threats of WMD proliferation and terrorism. We maintain strong support for the Financial Action Task Force's efforts to guide implementation of the financial provisions of WMD-related UN Security Council resolutions (UNSCRs), and to consider the threat of WMD proliferation finance more broadly. We agreed on the need to invest the resources required to identify and economically sanction the individuals and entities within WMD proliferation and terrorism support networks, in accordance with various UNSCRs.

Thank you.



PRESS ROOM

May 21, 2007
hp-413

Dep Asst Sec Peel's Remarks at EBRD Annual Meeting

I am pleased to be in Kazan for the 16th Annual Meeting of the EBRD. On behalf of Secretary Paulson, I would like to thank our hosts from the Russian Federation and the Republic of Tatarstan, the City of Kazan, Minister Gref, President Lemierre and Bank staff for their hard work in making this event possible.

We meet at a time of strong global and regional growth. Russia is experiencing solid economic growth fueled in part by high commodity prices, but also strong investment. Natural resource driven growth in Central Asia is helping many countries address broader development challenges. And the countries of the Caucasus, benefiting from a benign global economy, are pushing forward economic reforms leading to solid private sector led growth. While the countries of Southeastern Europe continue to address long-standing tensions, their economies are rebounding strongly. This has created a positive environment in which the Bank can and should become more active in accelerating reforms and promoting greater transition impact.

The new EU member states have benefited from an improved economic outlook. Here, EBRD's role is essentially over and has been supplanted by the private sector that the Bank successfully supported for over a decade. We join all other shareholders in celebrating the fact that the EBRD has met its transition mandate in these countries and has set a timetable for its exit under last year's Capital Resources Review (CRR). We particularly congratulate the Czech Republic for becoming the first EU member country to complete its graduation as a "country of operation" and join others as a donor to the EBRD.

The EBRD's unique mission as a temporary and transitional multilateral institution requires it to continually reassess where transition needs and opportunities still exist and to engage only when and where the private sector cannot or will not. Unlike a commercial bank, the EBRD can be judged as being more successful the more the need for its business declines.

The new CRR made clear that the EBRD must step up to the challenge dictated by its transition mandate and refocus its efforts on more risky environments where it is most needed. We therefore welcome the increased business volume in Ukraine and the opening of an additional resident office. We urge the Bank to do more on the ground in the Early Transition Countries and the Western Balkans.

The Bank's activities here in Russia represent a microcosm of the Bank's remaining areas of operation. As the Russian portfolio has grown in both absolute and relative terms – now approaching half of all EBRD new lending – the Bank must take extra care to achieve only positive transition impact and only catalyze, and never compete with, the private sector.

Over the past year, the Bank greatly exceeded the lending volume we approved last year in the CRR. While a private sector financial institution would be congratulated for such results, we are concerned about the EBRD's apparent willingness to finance sponsors with ready access to the financial markets. A stricter application of additionality and transition impact standards would result in a level of operation more consistent with what Governors approved last year.

The EBRD also needs to avoid operations that could damage its reputation and

credibility. The institution must be beyond reproach and stand as a model for countries and companies that receive its support. To avoid some of the troubling operations brought to the Board in the past year, the Office of the Chief Compliance Officer should receive a greater budget, more independence, and increased oversight of potential projects.

In terms of corporate governance, we continue to be concerned about the huge cost of funding the Bank's Board of Directors, now running at \$20 million, or 6% of the Bank's total administrative costs. In past years we have encouraged streamlining the Board, but it may be time to look at an idea being considered at other institutions: a non-resident Board. Governors should examine the Board's operations to ensure that they reflect the same level of efficiency and value for money that we expect from the broader institution.

We commend the EBRD for recent improvements in its anti-corruption policies, particularly its adoption of the harmonized definitions of fraud and corruption. We further commend the Bank, which does most of its business with the private sector, for its commitment to develop a strong private sector sanctioning mechanism. We note that the Bank, for the first time, debarred a company for corrupt behavior.

The United States was deeply disappointed in this year's process for reviewing allocation of net income. The Bank's charter dictates that once reserves exceed a specified threshold, as it did for the first time last year, a full review of options be presented for consideration. This did not occur. We expect detailed analysis that allows shareholders to make well-reasoned and prudent decisions on allocation of net income. A proper process should establish a framework and tools for dealing with future challenges such as:

- expanding operations in the Early Transition Countries;
- enhancing the Bank's technical assistance, and
- paying a dividend to shareholders.

We have called in the past for consideration of a dividend. This would provide a positive demonstration effect for current and potential regional investors, make clear that this is a region where the private sector can profitably invest, and create discipline in the institution's management for results.

While we were dissatisfied with this year's outcome and voted accordingly, we hope that other shareholders will join us in urging management to follow an improved process for 2007 net income, as required by the charter. In this regard, we applaud management's decision to move the timetable for discussion forward so we can have a complete and balanced review of this issue.

In conclusion, we encourage management to implement the guiding principles of the Bank's operations as spelled out in CRR3 to which we remain fully committed, namely:

- more rapid implementation of its strategy to shift operations south and east;
- strict adherence to the principles of transition impact and additionality, rather than the expansion of business volume;
- renewed efforts to improve its integrity due diligence on potential clients; and
- manage the Bank's business over the balance of the CRR3 period to the levels approved by Governors.

By fully implementing these principles, the Bank will better serve the needs of all its members. We remain confident that EBRD has the skills and resources to make this happen.

Thank you.

PRESS ROOM



May 21, 2007
2007-5-21-16-15-41-4012

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 \$66,041 million as of the end of that week, compared to \$66,197 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	May 18, 2007		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			66,041
(a) Securities	12,914	10,517	23,431
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	12,940	5,130	18,070
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position	4,525		
(3) SDRs	8,974		
(4) gold (including gold deposits and, if appropriate, gold swapped)	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	0		
--financial derivatives			
--loans to nonbank nonresidents			
--other			
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-)					
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity, where applicable)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency					
(a) Collateral guarantees on debt falling due within 1 year					
(b) Other contingent liabilities					
2. Foreign currency securities issued with embedded options (puttable bonds)					
3. Undrawn, unconditional credit lines provided by:					
(a) other national monetary authorities, BIS, IMF, and other international organizations					
--other national monetary authorities (+)					
--BIS (+)					
--IMF (+)					
(b) with banks and other financial institutions headquartered in the reporting country (+)					

(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				
--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options ¹¹				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic	

currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	
--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (-)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	
--currencies in SDR basket	66,041
--currencies not in SDR basket	66,041
--by individual currencies (optional)	

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.

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

May 22, 2007
HP-414

**Opening Statement by Secretary Henry M. Paulson, Jr. at the May 2007
Meeting of the U.S.-China Strategic Economic Dialogue**

Washington, DC – Good morning. It is with great pleasure that I welcome Vice Premier Wu and your colleagues to Washington, and the second meeting of the Strategic Economic Dialogue.

Your visit is historically unprecedented. Never before have so many Ministers from China gathered in one place in the United States. The number of senior officials who are focusing their time and attention on this effort is a demonstration of our shared and on-going commitment to the vision and purpose of this dialogue. We both recognize how critical it is for our countries that we get our long-term economic relationship right.

When President Bush and President Hu created the SED last August, their leadership set us on a course that led to our inaugural December meeting in Beijing, has continued through a series of meetings among Chinese and U.S. officials since then, to this Washington gathering, and will continue after we leave here. An open, honest economic relationship between our two countries is pivotal to the future of the global economy. The SED is a forum to manage that relationship on a long-term strategic basis, for our mutual benefit, and to work towards near-term agreements that build confidence on both sides.

Our task is not an easy one. We must address the immediate concerns that are impacting our industries and citizens and simultaneously identify tomorrow's issues. We must maintain a partnership, and engage in this process to solve what may seem unsolvable. We conduct our talks under the wary eyes of politicians, business leaders and workers in both of our countries.

We both face challenges of domestic protectionism and questions about the merits of trade and globalization. There is a growing skepticism in each country about the others' intentions. Unfortunately, in America this is manifesting itself as anti-China sentiment as China becomes a symbol of the real and imagined downside of global competition. That argument is fueled by the evidence of persistent trade and financial imbalances. China has its own opposition, with its own set of arguments. The purpose of this on-going dialogue is to have candid discussions and find ways to ease, rather than increase, these tensions.

A look back demonstrates, of course, that increasing our ties has benefited both our people. China's presence in the global economy has raised living standards in China and fueled growth around the world. Ten years ago, China was an outsider in the global marketplace; other countries set the rules and China was expected to abide by them. Now, China is a member of the WTO, a dynamic economic force and a model for other developing countries. China is able to help lead and define the rules. Neither America nor China can shrink from the role we have carved for ourselves in the world. We both must exercise leadership, in positive and productive ways. I have no doubt that our proud, strong countries can fulfill this responsibility.

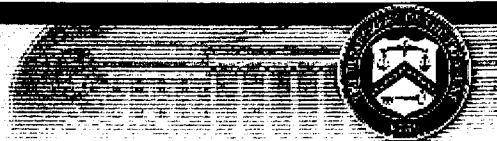
The United States is supportive of a stable and prosperous China. We are not afraid of the competition. We welcome it, because competition makes us stronger. It is therefore in our interest to support China's continuing efforts to open its economy. As I have said before, our policy disagreements are not about the direction of change, but about the pace of change. Americans have many virtues ---

we are a hard-working, innovative people---but we are also impatient. Even the notion of a "dialogue" may seem too passive for America's action-oriented ethic. It is up to us, over these two days and in the work that follows, to show that words are precursors to action.

The SED allows us to look forward, together, and define our future bilateral economic relationship. We are creating a roadmap for the future. So, welcome again, Madame Wu, distinguished Ministers and colleagues. Let's get to work.

-30-

PRESS ROOM



May 22, 2007
hp415

Under Secretary Steel Statement on Passage of House GSE Bill

Washington, DC- Treasury Under Secretary for Domestic Finance Robert K. Steel issued the following statement today regarding the passage of H.R. 1427 to reform the housing government sponsored enterprises:

"The House made progress to reform the oversight of the housing GSEs today. Treasury commends Chairman Frank for working in a bipartisan manner to pass legislation addressing this goal.

"Regretfully the House significantly weakened the regulator's abilities to examine systemic risk issues. Additionally, we remain troubled by the provisions relating to conforming loan limits, the Federal government's appointment of directors and aspects of the affordable housing fund.

"Treasury appreciates the efforts of the Financial Services Committee to advance the process of creating a strong GSE regulator but as a result of amendments adopted on the floor, the Department does not believe this bill adequately guards our financial system with the necessary oversight. We look forward to working with the Senate to address reforms critical to the safety and soundness of the U.S. financial system."

-30-

PRESS ROOM



May 23, 2007
HP-416

**Closing Statement by Secretary Henry M. Paulson, Jr. at the May
2007 Meeting of the U.S.-China Strategic Economic Dialogue**

Washington, DC – Thank you, Vice Premier Wu Yi and your distinguished colleagues for a very productive two days. My colleagues and I have been impressed by, and grateful for, the openness and positive spirit you brought to this meeting of the Strategic Economic Dialogue.

Over the last five months, China and the United States have come together to discuss our shared economic interests with mutual respect. We agree on many issues. We agree that it is vital to the prosperity of both our nations, that China rebalance its economic growth, encourage consumption and spread development more broadly among its people. We agree that by combining the power of our economies, we can spur further development of clean energy technology. We agree that strengthening and deepening our two-way trading relationship will create jobs and give our citizens a wider variety of choices and lower prices on goods.

While we have much more work to do, we have tangible results for our efforts thus far. These results are like signposts on the long-term strategic road, building confidence and encouraging us to continue moving forward together.

The United States and China understand that getting our economic relationship right is vital not only to our people, but to the world economy. Vice Premier Wu and I see an important part of our job is to communicate frequently, iron out differences, and keep the economic relationship on an even keel, even during times of tension. Our relationship works best when it produces mutual benefits, which lead to growth, balance and a stronger global economy.

We agreed today on a wide variety of next steps, including significant items in financial services, energy and the environment, and civil aviation. The dialogue will continue; our cooperative spirit will continue as well. At our next meeting, we will focus on capturing the benefits and managing the challenges of global economic integration.

We have built strong relationships since our inaugural meeting in Beijing. Those relationships will continue to grow stronger and produce on-going returns. On behalf of the American delegation, thank you for coming and we look forward to returning to China later this year.



PRESS ROOM

May 23, 2007
HP-417

Fact Sheet: Second Meeting of the U.S.-China Strategic Economic Dialogue

The United States and China today concluded the second meeting of the Strategic Economic Dialogue (SED). President Bush and President Hu established the Strategic Economic Dialogue in September 2006 as a focused and effective framework to address shared priorities and mutual concerns. For the meeting held May 22 and 23 in Washington, 17 U.S. Cabinet officials and agency heads joined Secretary Paulson for discussions with China's Vice Premier Wu Yi and a delegation of 15 ministers and representatives from a total of 21 Chinese government ministries and agencies.

The Strategic Economic Dialogue is a management tool for our bilateral economic relationship and is an on-going process involving continuous discussions between officials from both nations. The SED addresses long-term structural issues and seeks near-term results which build confidence on both sides and demonstrate progress toward long-range objectives. At the meeting this week, leaders from both countries agreed to increase market access, open the financial sector, foster energy security, protect the environment, and strengthen the rule of law.

Increasing Market Access

Trade fosters an environment of competition, innovation, research and investment, which leads to higher incomes and a wider range of goods and services at lower prices. Increased access to markets in China creates opportunities for American companies. During this second meeting of the Strategic Economic Dialogue, the United States reached new agreements to further open China's markets to U.S. products and services.

- **Air Services Liberalization:** The United States and China committed to expand the existing bilateral aviation agreement through liberalization of air services rights. This new accord provides for a doubling of daily passenger flights from the United States to China by 2012, starting with the addition of a new daily flight this year. The agreement also will provide U.S. cargo carriers with virtually unfettered access to Chinese markets by lifting all government-set limits on the number of cargo flights and cargo carriers serving the two countries by 2011. U.S. and Chinese officials have committed to resume negotiations in 2010 to establish a timetable to achieve the mutual objective of full liberalization.
- **Promoting Growth in the Tourism Industry:** The United States and China signed a declaration of intent to launch negotiations to facilitate Chinese group leisure travel to the United States. The Chinese travel market is expected to grow to 100 million travelers within the next 15 years according to the United Nations World Travel Organization. Allowing tourism companies to arrange trips for Chinese travelers to the United States is a significant step, given that one in 17 jobs in the United States is related to the tourism industry.
- **Expanding U.S. Exports:** The Export-Import Bank of the United States and the Export-Import Bank of China signed a memorandum of understanding that will provide loan guarantees for the export of large scale capital goods from the United States to China, supporting U.S. export jobs and promoting China's sustainable development.

Opening the Financial Sector

Financial markets connect money with ideas and ambition, the lifeblood of innovation and dynamism. U.S. financial institutions are helping to expand a vast new market in China for American financial services products. During the second

meeting of the Strategic Economic Dialogue, the United States and China committed to further financial sector reform, including:

- **Expansion of U.S. Financial Services Industry:** China agreed to remove a block on the entry of new foreign securities firms and resume licensing securities companies, including joint-ventures, in the second half of 2007. In addition, China will announce before SED-III that it will allow foreign securities firms to expand their operations in China to include brokerage, proprietary trading and fund management. This will create opportunities for U.S. firms and provide new competition and expertise in the Chinese securities industry.
- **Increased Qualified Foreign Institutional Investors (QFIIs) Quotas:** To develop broader and deeper integration into the global financial market, China will raise the quota for Qualified Foreign Institutional Investors from \$10 billion to \$30 billion.

"The United States also welcomes China's May 10, 2007 announcement to expand Qualified Domestic Institutional Investors (QDII) investment to include equity investment. This change can help diversify financial sector assets in China, which in turn can help enhance financial sector stability."

- **Pending Foreign Property Insurance Company Conversion Applications:** The China Insurance Regulatory Commission will now make decisions by August 1, 2007 on applications for conversion from branch to subsidiary that have been pending for more than a year. China also commits to abide by regulations that require 60 day processing for future applications. This will allow for more efficient and cost effective operations.
- **RMB Transactions by Foreign Banks:** China agreed to immediately allow foreign-invested banks to offer their own brand of RMB-denominated credit and debit cards. This will allow U.S. banks to offer a full range of RMB services to compete with Chinese banks that currently offer these services.
- **Market Access for Insurance Firms: Enterprise Annuities:** The Chinese Government agreed to streamline by SED-III the application and licensing process for the provision of enterprise annuities by financial institutions, which will allow U.S. insurance firms already operating in China to widen the range of services they provide and increase the amount of capital under their management for investment.

Promoting Energy Security and Protecting the Environment

Energy security and environmental protection are shared priorities for both the United States and China. This creates demand and incentives for the rapid development and deployment of clean and efficient energy technology. At the second meeting of the Strategic Economic Dialogue, both countries agreed to:

- **Coal-Mine Methane (CMM) Capture:** Over the next five years, the United States and China will develop up to 15 large-scale CMM capture and utilization projects in China.
- **Develop Clean Coal Technologies:** The United States and China will provide policy incentives to promote the full commercialization of advanced coal technologies and will advance commercial use of carbon capture and storage technologies. China uses twice as much coal as the United States to power its growth and economy, and that number is expected to double by 2020.
- **Reduce and Eliminate Trade Barriers:** The United States and China agreed to work together as part of the WTO Doha negotiations to discuss reducing or eliminating tariff and non-tariff barriers to environmental goods and services. Working together, the United States and China can increase access and reduce the costs of these important environmental technologies and services.

Strengthening the Rule of Law

- **Fighting Counterfeit Goods and Protecting Our Borders:** Protecting intellectual property rights, welcoming competition, promoting transparency and observing the rule of law are all critical to creating the framework within

which creative ideas can flourish. During the second meeting of the SED, the United States and China signed an agreement to strengthen the enforcement of intellectual property rights laws. The agreement provides for an exchange of information on counterfeit good seizures, experiences with counterfeit goods and dialogue among respective Customs staff to improve intellectual property rights enforcement in our nations.



PRESS ROOM

May 23, 2007
hp-418

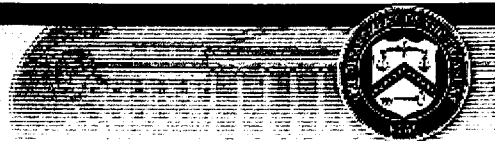
**Financial Sector Reform Fact Sheet
Second Meeting of the U.S. China Strategic Economic Dialogue**

As leaders in the global economy and in the international financial and trading systems, the United States and China share a responsibility to promote balanced and sustained growth in their economies. A competitive and efficient financial sector will be an engine for growth in China's fast-growing economy, providing opportunities for American manufacturers, farmers, and other service providers. As China becomes progressively more integrated into the global economy and financial system, stability in China's financial sector becomes increasingly important for the U.S. economy. Introduction of U.S. securities firms, asset managers and insurance companies will help to develop expertise and depth in China's markets and improve the stability of the market.

During the second meeting of the Strategic Economic Dialogue, China announced it will take steps to encourage growth and competition in its financial sector.

- **Expansion of U.S. Financial Services Industry:** China agreed to remove a block on the entry of new foreign securities firms and resume licensing securities companies, including joint-ventures, in the second half of 2007. In addition, China will announce before SED-III that it will allow foreign securities firms to expand their operations in China to include brokerage, proprietary trading and fund management. This will create opportunities for U.S. firms and provide new competition and expertise in the Chinese securities industry.
- **Increased Qualified Foreign Institutional Investors (QFIIs) Quotas:** To develop broader and deeper integration into the global financial market, China will raise the quota for Qualified Foreign Institutional Investors from \$10 billion to \$30 billion.
- **The United States also welcomes China's May 10, 2007 announcement to expand QDII investment to include equity investment.** This change can help diversify financial sector assets in China, which in turn can help enhance financial sector stability.
- **Pending Foreign Property Insurance Company Conversion Applications:** The China Insurance Regulatory Commission will make decisions by August 1, 2007 on applications for conversion from branch to subsidiary that have been pending for more than a year. China also commits to abide by regulations that require 60 day processing for future applications. This will allow for more efficient and cost effective operations.
- **RMB Transactions by Foreign Banks:** China agreed to immediately allow foreign-invested banks to offer their own brand of RMB-denominated credit and debit cards. This will allow U.S. banks to offer a full range of RMB services to compete with Chinese banks that currently offer these services.
- **Market Access for Insurance Firms -- Enterprise Annuities:** The Chinese Government agreed to streamline by SED-III the application and licensing process for the provision of enterprise annuities by financial institutions, which will allow U.S. insurance firms already operating in China to widen the range of services they provide and increase the amount of capital under their management for investment.

PRESS ROOM



May 23, 2007
HP-419

Developments Since the First Meeting of the Strategic Economic Dialogue in December 2006

The SED is a management tool for the U.S.-China economic relationship, not merely a biannual event. Under the SED, interaction between the U.S. and China is frequent and ongoing. Progress will occur and be announced throughout the year, such as the following actions by the Chinese Government which occurred between the first and second meetings of the SED:

- **Transparency and accountability:** In April, China's State Council issued new regulations to promote government transparency. This is an important priority for the U.S. business community.
- **Protecting private property:** In March, China's National People's Congress approved landmark legislation to protect property rights. This legislation is an unprecedented, significant step towards China becoming a market economy and the development of legal rights.
- **Market access:** The conversion of bank branches to subsidiaries under foreign bank regulations has been a smooth and quick process. In March, four banks had their applications approved, including one U.S. bank, Citibank. In April, these banks began accepting RMB deposits, a first in decades. In December 2006, Citibank purchased a 20 percent stake in Guangdong Development Bank.
- **Construction and engineering services:** In March, China issued implementing regulations that relaxed residency requirements, allowing regulators to recognize the foreign qualifications of license applications of technical experts.
- **Reducing export subsidies:** In March, China agreed to terminate the subsidy that allowed major Chinese exporters to receive discounted loans not available to other companies.
- **Reduction of Value-Added Tax Rebates:** In April, China announced the reduction of export tax rebates on textile and apparel products, the elimination of the VAT on some chemical and steel exports, and a reduction of the VAT rebate to 5 percent on higher-value steel.
- **Tax rebates for imports:** In April, China announced tax rebates on imported components for advanced equipment. These rebates apply to imports by 16 industries, including large power-generating plants and transmission equipment.
- **Energy Security:** In April, officials from China's National Reform and Development Council (NDRC) visited the national renewable energy lab in Colorado and the Strategic Petroleum Reserve in Texas as they continue to develop their strategic petroleum reserves and engage in international cooperation.
- **Reducing Tariffs:** China announced on May 21, effective June 1, that it will raise export taxes on 142 goods and cut import tariffs on 209 goods to rein in its trade surplus, improve energy efficiency, and promote domestic consumption, effective June 1.



PRESS ROOM

May 19, 2007
HP-420

Pre-Summit Statement by G8 Finance Ministers

We met and discussed today global economic issues in preparation for the Summit of the G8 Heads of State and Government in Heiligendamm.

Global growth remains robust and it is more balanced across regions and within our countries. Risks for the outlook have abated, but high and volatile energy prices remain a concern and 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.

We firmly believe that all participants have the responsibility to ensure a successful outcome of the Doha Development Round. It is necessary to achieve an ambitious, balanced and comprehensive deal that delivers economic benefits for all members, enhances global growth and contributes to poverty reduction. We remain committed to resisting protectionist sentiment. We should strive to reach an agreement on the core modalities as soon as possible, which will require political will and additional efforts by all parties. Also, open investment regimes are vital for improving productivity, creating jobs and spurring healthy competition. All countries, developed and developing countries alike, have the responsibility for ensuring that Aid for Trade will help secure the full benefits of trade for developing countries. We expect spending on Aid for Trade to increase to \$4 billion, including through enhancing the Integrated Framework. We support enhanced cooperation to enforce intellectual property rights and combat counterfeiting which are crucial to our knowledge economy.

We discussed with the Finance Ministers of Cameroon, Ghana, Mozambique, Nigeria and South Africa and the President of the African Development Bank (AfDB) the importance of Good Financial Governance in Africa in achieving the Millennium Development Goals. With the attached "G8 Action Plan for Good Financial Governance in Africa" we strongly support efforts to increase the effectiveness and efficiency of public financial management in Africa, including capacity building, with special attention to particular needs of post conflict and fragile states. We commit to engaging actively in implementing the Action Plan and ask the World Bank, the IMF and the AfDB to do likewise. Improved financial governance and aid flows must go hand in hand if we are to tackle poverty. We reaffirm our commitment to meeting our responsibilities as donors, in particular the importance of delivering on our aid commitments. We welcome proposals for more effective international cooperation on asset recovery including from the World Bank and the United Nations. We encourage the use of the debt sustainability framework by all borrowers and creditors in their decisions. We continue to support the development of a charter for responsible lending and seek to involve other interested parties, including the G20. In this context we are concerned about the actions of some litigating creditors against Heavily Indebted Poor Countries. We have agreed to work together to identify measures to tackle this problem, based on the work of the Paris Club.

We express our appreciation to World Bank President Paul Wolfowitz for his service to the Bank and his commitment to responsible development and poverty reduction, particularly in Africa.

We endorsed the attached "G8 Action Plan for Developing Local Bond Markets in Emerging Market Economies and Developing Countries" which is aimed at fostering growth and financial stability. The plan identifies measures in several areas where

further progress should be made. The plan for action acknowledges the key importance of macroeconomic stability and sound legal frameworks as necessary conditions for the development of local currency bond markets. We call for a strengthening of market infrastructure to broaden and diversify the investor base. We encourage the promotion and coordination of technical assistance and ask the International Financial Institutions to take stock of the available data in support of local currency bond markets, with a view to data consolidation. We also agree on the importance of promoting regional initiatives that should provide extra momentum for developing these markets. We ask the IFIs to report regularly on the progress made in implementing this plan and we agree to monitor the issue. In low-income countries, the development of local bond markets must take into account their potential impact on long-term debt sustainability.

We continued our discussion on recent developments in global financial markets, including hedge funds, which, along with the emergence of advanced financial techniques and products, such as 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 increasing complexity of the instruments they trade, we reaffirmed the need to be vigilant.

In this context, we welcomed the Financial Stability Forum's (FSF) update of its 2000 Report on Highly Leveraged Institutions and support its recommendations. The global hedge fund industry should review and enhance existing sound practices benchmarks for hedge fund managers; in particular in the areas of risk management, valuations and disclosure to investors and counterparties in the light of expectations for improved practices set out by the official and private sectors. Counterparties and investors should act to strengthen the effectiveness of market discipline, including, by obtaining accurate and timely portfolio valuation and risk information. Supervisors should act so that core intermediaries continue to strengthen their counterparty risk management practices. In the exercise of their supervision of hedge funds counterparties, relevant authorities should monitor developments and cooperate among themselves. The FSF has agreed to report to ministers as from October of this year on the progress and actions taken in respect of these recommendations.

We discussed measures to improve the efficiency of public spending and its effectiveness in supporting economic growth and employment. This is a key task, along with securing adequate revenues, in order to ensure public finances are on a sustainable footing in the face of rising age-related expenditures, while enhancing citizens' well-being. We agreed that well-designed and well-implemented budget rules can be useful both in supporting fiscal discipline and raising the efficiency of public spending. We will continue learning from each other's experiences in order to improve the performance and outcomes of public services while containing spending.

In order to ensure energy security and to address climate change, we consider energy efficiency and the promotion of energy diversification, which can include advanced energy technologies such as renewable, nuclear, and clean coal, to be important. We reaffirm the shared responsibility of all countries to act in an effective and balanced manner to tackle the challenge of greenhouse gas emissions and energy security without creating economic distortions. We are of the view that it is particularly important for all countries to pursue policies that mitigate climate change and facilitate the necessary adaptation. We agree that energy and climate policy frameworks should be based on market based policies, in order to minimize the cost of action and to provide incentives for all stakeholders to use existing low carbon technologies and invest in the development of innovative technologies. These frameworks, which could include taxes and emission trading, should be effectively designed to meet specific conditions in each country, whilst capturing the benefits of integrated markets. We agreed that finance ministers should discuss these issues further and look forward to a conference on these issues later this year.

We are committed to fighting 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 and 1747. To this end, we ask the Financial Action Task Force (FATF) to examine the risks involved in weapons of mass destruction proliferation finance. We urge the FATF to collaborate intensely with jurisdictions that have failed to recognise the international standards. We urge that, as it reviews its strategic direction, the FATF consider expanding its mandate, enhancing global implementation of its standards, improving its strategic surveillance, and examining ways to bolster accountability and outreach activities. We call on the IMF and the World Bank to closely cooperate with the FATF.

PRESS ROOM



May 23, 2007
HP-421

**Transcript of U.S. Delegation Press Conference - Second Meeting of the
U.S.-China Strategic Economic Dialogue**

SECRETARY PAULSON: I'm grateful to my colleagues who are standing here with me. Their constant, steady leadership is vital to maintaining and strengthening U.S.-China relations. We only have these meetings twice a year but the work of the SED is ongoing. Every one of these cabinet officers is instrumental to the success of our economic relationship with China. They and their staffs have spent a great deal of time and effort and logged a lot of air miles working on these issues since our December meeting in Beijing.

This session of the SED allowed us to sit with our Chinese counterparts and assess our progress on a number of fronts. While there is much more to do, we have made progress in a variety of areas, I would like to ask a few of my colleagues to highlight some of the significant items.

To begin with, Secretary Peters is going to say a few words about civil aviation.

SECRETARY PETERS: Secretary Paulson, thank you so much and good morning to all of you. Thank you for being here today.

It is my great pleasure today, on behalf of President Bush, and truly a great pleasure on my part to announce that the United States has reached a new air services agreement with China. This agreement will strengthen both of our economies. It will open opportunities for business, travel, and tourism, and cultural exchanges across the Pacific. I would like to express my sincere appreciation to President Bush, President Hu, Madam Wu Yi, and of course Secretary Paulson.

The energy and the leadership of this strategic economic dialogue has been invaluable in helping us reach this historic accord. Today's agreement is tangible proof of the value of the SED. There was clear understanding during the first meeting in Beijing that aviation is a critical part of the dialogue on broadening and deepening our trade relationship.

In the modern world, international trade simply cannot operate without air transportation. Aviation makes it possible to move products and people through vast countries like ours and across borders quickly and efficiently.

At December's SED, we set a goal of making meaningful progress toward amending a U.S.-China air service agreement in time for the spring meeting. I stress the importance that my country attached to this goal when I met with Minister Yang and others during my trip to China in April, and I reiterated again when we had the opportunity to meet in a very productive session on Tuesday.

Today, I am able to report that we have made more than progress. We have a breakthrough, a breakthrough agreement that opens the way for more frequent and more affordable and convenient air services between China and the United States. Over the next several years, we estimate that this agreement will stimulate some \$5 billion in new business for our airlines as they take advantage for growing demand for travel between our two countries.

Today's best estimate is that as much as 16 percent of U.S.-China passenger traffic is being lost to airlines from a third country. This means lost revenues for both of

our carriers and lost opportunity for our flight crews and other airline employees. This agreement gives both of our countries much greater freedom to serve the growing U.S.-China market by introducing new carriers and additional service in the key cities of Beijing, Shanghai, and Guangzhou.

We have seen the intense interest by U.S. airlines in offering this service as they have competed for the limited new routes under the current agreement. The competition for these routes make some of the Olympic events look tame by comparison. With our new agreement, our carriers will be able to more than double the number of daily passenger flights they offer between the United States and China and 13 new daily flights over the next five years.

By 2012, U.S. carriers will be able to operate 23 daily flights to China. That is up from just 10 today. And at the same time, the new agreement raises restrictions on air cargo flights between our countries. And by 2011 we will have full air cargo services available.

In a market where every filled seat and every piece of cargo shipped can mean a difference between success and failure, this agreement will go far in guaranteeing the success of our airlines in both of our countries.

We have also agreed to resume negotiations in early 2010 to see how we can get to open skies for passenger carriers as quickly as possible. Both sides have restated their shared and ultimate objective of getting a fully liberalized agreement in place just as the U.S. recently accomplished with the European Union.

Let me conclude by extending my personal thanks to Minister Yang who is a true visionary, and without whom this agreement would not have been possible. I would also like to thank the expert team of negotiators from both of our countries who have worked very diligently and under tight pressure to bring these talks to such a successful conclusion. Step by step, we are making it easier, cheaper, and more convenient to fly people and to ship goods between our two countries. Both countries understand that the path to friendship and cooperation is paved with easy access and close connections.

Thank you to all who have been involved. Secretary, thank you for your leadership.

SECRETARY PAULSON: Mary, thank you very much.

Let me turn quickly to financial services. Increasing the pace of reform in China's financial services markets is important to spread prosperity to all of China's people, promote greater stability, and to support China's transition to a more determined exchange rate.

I've laid out in detail many times, including the speech in Shanghai – the steps I believe China needs to take to develop its financial markets. In our meetings we made some progress in this area. The Chinese announced they will remove a block of entry of new foreign securities firms and resume licensing securities companies this year. They will also allow foreign securities firms to expand into brokerage, proprietary trading and fund management businesses. They will increase supplies for their qualified foreign institutional investors, the QFIIs, from \$10 billion* to \$30 billion, and remove restrictions on the investments in qualified domestic institutional investors – the QDIIIs – to make outside of China.

Together, these will expand opportunities for U.S. financial services firms and by allowing greater financial flows, help create the basis for moving to a more market-determined exchange rate. Also, China will allow foreign-invested banks, including U.S. banks to offer their own brand of Renminbi-denominated credit and debit cards, and will complete decisions on pending applications for U.S. non-life-insurers by August 1st, 2007.

And the Chinese have taken some steps to increase the flexibility of their exchange rate in RMB and inside – (inaudible) – for greater flexibility in the short term and for

a transition to market-determined exchange rate in the medium term.

The Chinese share our goal of well-developed financial sector – this supports balanced growth. Where we differ is not over the goals, but over the pace of change, and I believe that the greater risk for China is in moving too slowly, not in moving too quickly.

Of course our discussions here are focused on opening all of Chinese markets, not just the financial sector. Let me ask Secretary Gutierrez and Ambassador Schwab to say a few words about that. First, Carlos.

SECRETARY GUTIERREZ: Thank you. Thank you, Secretary Paulson.

Intellectual property and market access remain at the top of our agenda every time we meet with Chinese officials. Improving protection and enforcement of intellectual property as you well know is really at the top of the list of concerns for our companies to do business in China. The Chinese have passed tougher laws. Now is the time for tough enforcement of those laws, and we had conversations on that.

We also need better market access across a range of industries to continue to drive competition. We believe, and we have discussed, and I believe the Chinese officials understand this, competition will sharpen Chinese industry while giving U.S. companies the opportunity to bring the goods and services to millions of Chinese consumers. We agree that accelerating discussions to develop tourism – this will build on the announcement Secretary Peters has made. Technology, trade, and transparency were also high on the agenda. U.S. high technology exports to China were up 44 percent in 2006 to \$17.7 billion. We explained steps that we will take to facilitate such exports to trusted civilian customers in China while maintaining our national security guidelines. We also discussed with our Chinese counterparts ways to increase the transparency of China's rule-making process.

We listened to China's concerns about a recent decision to apply countervailing duties and confirmed our position and our firm commitment to use tools at our disposal to enforce fair competition. We welcome China as a responsible member and an important contributor to the global economy, and we look forward to working together to achieve a level playing field for all of us.

AMBASSADOR SCHWAB: As the name implies, obviously this is a dialogue and therefore one aspect of the broader array of venues and activities important to a mature bilateral trading reception. SED II covered a range of important topics in the trade arena: the Doha round prospects, China's role; China's commitments to the World Trade Organization; trade and agricultural goods, including beef; trade and services, including trade and prospects for opening trade more fully, and environmental goods and services; and regulatory conditions, including protection of intellectual property rights that are necessary for the Chinese economy to develop and to put the bilateral trading relationship on a more stable footing. Suffice it to say, we had a healthy exchange of views.

SECRETARY PAULSON: Thank you, Sue and Carlos.

We have also made progress in the area of energy and the environment. Energy security and a cleaner environment are high priorities for both of our nations. Our two markets for energy are big enough that by working together, we can drive the development of clean energy technology that will improve the environment and reduce our dependence on imported fuel. There will be a briefing on these particular items later today. And we all know that consumer confidence is a vital ingredient in growing any trade relationship. During these two days, this issue was discussed with regard to food safety.

Let me turn now to Secretary Leavitt and then Secretary Johanns on that topic.

SECRETARY LEAVITT: There are many shared issues that we have with the Chinese government. We have discussed at some length in side sessions about the

pandemic influenza. We have talked about rural health care. We had lengthy discussions on the cooperative continued research. But recent events have forced very clearly as one of our top concerns the safety of food and medicines.

The Food and Drug Administration Commissioner Van Eschenbach and I raised these concerns directly to the highest levels of the Chinese government. We made clear that we need to improve in the areas of cooperation, information sharing, and the registration firms. The Chinese government clearly understands that the world marketplace will swiftly disadvantage any nation or economy or firm that is not able to establish a sense of confidence and reliability in safety. We have a continuing dialogue with them. We'll have additional meetings this week, and we expect that it will in fact create a pathway for our mutual cooperation and benefit.

SECRETARY JOHANNNS: If I might offer just a quick refresher, I deal with meat and poultry at USDA, and Mike deals with pretty much everything else. So we both get involved in food safety issues and because of that we were both involved in the discussions that occurred over the last couple of days with China.

We discussed with China our concerns about the safety of Chinese food exports system. I would mention that those conversations took place not only at our level but they also took place as recently as this morning at the next level, the undersecretary's level, where Dr. Raymond met at the USDA this morning with Chinese officials. We believe strongly that we have to have the regulatory system that assures the American public of safety in the quality of food that is being imported to the United States. And whether that would be from China or any other country.

In order to provide that assurance here in the United States, we are asking China to work with us in many areas. And as Mike indicated, those conversations are continuing right up to the time that the Chinese leave the United States. Secretary Leavitt and I will continue to discuss steps that that we feel would be necessary with our counterparts from China, and again, we anticipate meetings right up to the time that the Chinese leave. As we continue our discussions, we will be happy to share any additional details that may come out in the next 24 to 48 hours.

Let me just wrap up and say that I thought our conversations were helpful. I thought the Chinese worked with us very, very well, and so I'm optimistic about the next couple of days in dealing with these very, very important issues. Thank you.

SECRETARY PAULSON: Thank you very much, Mike and Mike.

Now I would like to ask Secretary Chao and Secretary Jackson to mention a few important things in their areas.

SECRETARY CHAO: As part of the Strategic Economic Dialogue, the U.S. Department of Labor will sign three letters of understanding with China's ministry of labor and social security to help strengthen the social safety net for China's workers. A stronger social safety net will allow Chinese workers to decrease their high rate of precautionary savings so that they will buy more goods and services, including more U.S.-produced goods and services.

The three areas of cooperation are in pensions, especially employer-provided pensions in the private sector, unemployment insurance, and labor market statistics. Labor market statistics were added because accurately measuring employment and data concerning the workforce is critical to designing social safety net programs for workers. These agreements are part of an ongoing exchange, part of ongoing exchanges that the U.S. Department of Labor has been pursuing with China for several years, which will also lead to cooperation in health and safety and compensation issues as well. Thank you.

SECRETARY JACKSON: Secretary Paulson and my other colleagues, over the past two days, we have devoted discussion to mutual benefits from the growing connectivity between the economies of our two countries. One of the statistics that

bears this out is the financial market place most of all. In 2002, the total Chinese investment in U.S. agency marketplace securities was once at a million dollars. By June of 2006, this number had grown one thousand fold to \$107 billion.

The Chinese economy is benefiting from high-yield safe investments in mortgage-backed securities. Here at home, American homeowners are benefiting from low interest rates on mortgage loans resulting from the great Chinese demand for these securities.

This week's dialogue has been constructive. We look forward to further the discussion and further integrating that capital when I get to Beijing this July. Thank you.

SECRETARY PAULSON: Thank you Elaine and Alphonso. Now, in conclusions, we have built strong relationships since President Bush and President Hu agreed to the SED last fall. I believe this dialogue gives us our best opportunity to increase the pace of change in China. By gathering the economic teams from both nations together, we can put a wide variety of issues on the table and focus on the items that are high priorities for both of our nations. We will continue to work on all of these issues in the coming weeks and months, and the third cabinet-level meeting of the SED will occur later this year in China.

Now we'll take your questions. Yes.

Q: Secretary Paulson – thank you. Thank you. My name is – (inaudible) – from China – (inaudible). And Secretary Paulson, do you set any deadline for China to appreciate Renminbi more faster, and how does China respond to this issue, and how will you – will you deal with this matter with the congressman, thank you?

SECRETARY PAULSON: Okay, that is a question I have had before so I can – (laughter) – I can assure you, and I also have that with the congressman. (laughter)

But let me say in all seriousness, the Renminbi and the rate of appreciation, the degree of flexibility is an important economic issue. It is an important issue in trade forums, but even more importantly, it has become a symbol for the rate of reform, the pace of reform of the Chinese economy. So we talked about it a lot. And we had a number of very good presentations on it, one in particular during the Strategic Economic Dialogue.

And the way I think about it is this: The Chinese clearly – (inaudible) – have stated the principle of greater Renminbi flexibility. They will cite statistics and clearly they have been moving the Renminbi more quickly. There has been more movement in the Renminbi, more flexibility over the last six months to a year. So there is no doubt that that is going on.

If you look at economic data, it's easy to make the case that there is more need to move the Renminbi now than there was even in July of 2005 because if you look at the Renminbi on a trade-weighted basis or look at it in economic terms, making allowances for productivity gains, there is a continued need to move the Renminbi.

So we make the case and they listen and they are moving the Renminbi. They have widened the band. Now, that is – on the one hand, it's an important signal, but what really is going to make the difference is how much they take advantage of the – (inaudible) – as the Renminbi moves. And so the Renminbi – someone could make the case that the Renminbi doesn't take full advantage of the narrower band but I choose to take that as a positive signal, and I think the real test will be how much flexibility there is in the Renminbi on a daily basis and over time.

So this is an important area. They agree with us on principle. The question is the pace of change. The pace of change has picked up, but I believe it will be very much in their best interest and the rest of the world's best interest if they will move more quickly.

Yeah.

Q: Thank you. Pete Kasperowicz from Inside U.S. Trade. A question for Ambassador Schwab: All of you mentioned at some point or another that this meeting is designed to help create momentum in other meetings like the JCCT. That would seem to be needed since, by your own accord, China has failed to meet the obligations it undertook in April of 2006. What sense do you get from this meeting that China is willing to meet those commitments and maybe move further beyond?

AMBASSADOR SCHWAB: I think first of all, in terms of the JCCT meeting commitments in April of 2006, I think we have a mixed picture, including a lot of positive elements to point to. In intellectual property rights for example, business software with the Chinese computer companies freeloading legal operating software for computers to leave the factory. That has had an appreciable measurable impact on the piracy of business software. So take that as a for-example for a success.

There is still activity underway and implementation that we're looking forward to seeing. In addition to – as you can imagine, with this many ministers in town, we also take advantage of the presence of the various Chinese ministers to do sidebar conversations, quiet conversations over lunch or dinner, meeting separately. And we talk about the range of issues, including, as I noted, China's compliance with its WTO commitments. And we are moving ahead. One is never satisfied, but we are moving ahead and we're seeing some progress.

SECRETARY PAULSON: Yes, the gentleman.

Q: Perhaps this is question for Secretary Johanns about beef. Any progress on the beef front? (Laughter.)

SECRETARY JOHANNNS: Well, we did talk about beef. I had an opportunity on a couple of occasions to visit with my counterparts about beef. Also during the general session, I would say, though, to announce the very, very positive decision that was issued by the OIE. So what I can offer at this point is that now with the OIE backing up the safety of our beef, what we are asking China to do, and for that matter, all of our trading partners, is to embrace the OIE standard and allow for the trade in beef based upon that standard. China happens to be here this week, so we made that request to them but I can tell you, we are dispatching information across the globe to our trading partners on the OIE decision. So it won't just be China that will receive this request; it will be Japan; it will be Hong Kong; it will be Korea; it will be all of our trading partners in beef. So I can't announce a breakthrough but we had a good week this week because of the OIE decision.

SECRETARY PAULSON: Let me just make one point that I think most of you here know but maybe all of you don't. The SED is not – doesn't replace the other bilateral mechanisms we have with JCCT, the JCM, the JEC. So what we do is we focus on longer-term structural issues and issues that are of the most concern in the short term, and so that is the approach that the SED is.

The gentleman in the second row?

Q: (Inaudible). For longer term, any discussion has ever mentioned about the bubble of the Chinese stock market – I mean, any reaction for the Chinese side that they worry about the – (inaudible) – before the Beijing Olympics? Thank you.

SECRETARY PAULSON: Well, we don't – I'm not going to comment on the views I have one way or the other on the level of any market. And I certainly would never characterize something as a bubble. But we did, we spent a lot of time talking about financial markets and capital markets. And one of the points we made, one of the points I made is that China has come a long way in the development of the overall economy. They have gotten farther to go, but they have come a long way.

They had meaningful reforms in the financial markets, but the financial markets are not yet reflective or representative of the success of the Chinese economy. And when you think about innovation – and we talked about innovation a lot today – and I made the point that it's also important to have innovation in financial products and allow the most innovative financial products when they're appropriate. And so the – as the Chinese market develops and as the Chinese market gets representative and sophisticated, institutional markets when they are allowed more hedging techniques, risk management techniques, there will be ultimately more protection for individual investors. Of course, markets go up and markets go down and so investors in every market need to be prepared to have losses from time to time. Yes?

Q: Secretary Paulson, Banco Delta Asia, which is of great interest to China and the region. Last month you mentioned that the strategic objective was to have a de-nuclearized Korean peninsula. My question is who that objective – I'm Banco Delta Asia –

SECRETARY PAULSON: I just – the objective was to have what?

Q: You mentioned in last month's press conference that the objective was – the strategic objective was to have a de-nuclearized Korean peninsula for Banco Delta Asia on the issue. And, I'm sorry question is that –

SECRETARY PAULSON: I don't know why I'm missing the point. I can't hear you.

Q: It's about Banco Delta Asia and North Korea. Banco Delta Asia.

SECRETARY PAULSON: Oh, Banco Delta Asia. Okay, I've got it.

Q: Yes, I'm sorry. Last month at a press conference, you mentioned the strategic objective was to have a de-nuclearized Korean peninsula. My question is, for that objective, are you willing to have special measures or give waivers to American banks that are willing to transfer the North Korean funds since they can't do so without violating the – (inaudible)?

SECRETARY PAULSON: Yes, the first – what I said last month in an effort – I believe you asked the question about Banco Delta Asia and the sanctions on Banco Delta Asia and I said the biggest, the overriding objective, the forest through the trees is a de-nuclearized Korean peninsula and that still remains the objective. There is – I'm still cautiously optimistic.

And in terms of Banco Delta Asia, that situation speaks for itself. The rule speaks for itself. I think it's pretty clear to everyone in the world today that when the U.S. government, when we take steps to preserve the security of the banking system and to protect it against abuses of proliferation, money laundering, any other illegal activities, that that has a positive result and I think that is a very, very powerful measure that we use. And I think it ultimately drives better behavior. And so I think what we're working towards, I said, is the de-nuclearization of the peninsula and we're ultimately looking for changed behavior.

Q: Thank you, Mr. Paulson. I'm with Beijing Review. Have you got any responses from the Congress toward the two-day discussions? Are they satisfied? And what's your expectation for Madame Wu Yi's meetings with the Congress tomorrow? Thank you.

SECRETARY PAULSON: I don't think it's fair of me to have expectations and let me say we just finished the meetings today, so I'm not sure what Congress's reaction will be. I can say there were a number of congressional leaders at our dinner last night that Secretary Rice hosted at the State Department, including Chairman Rangel, so there was some discussion there. But again, as I've said before, we intentionally scheduled this meeting at a time when Congress is in session because we thought it would be very good for the Chinese to have an opportunity to meet directly with our Congress.

I believe that their expectations are that they will hear some strong views that we've explained to them that the American people have concerns about trade, globalization, don't believe the benefits of trade are being shared evenly or equally with our trading partners, particularly China. And so I think they're expecting to hear that from Congress and hopefully it will be a good two-way dialogue and a learning experience on both sides, as these discussions always are. Way back, the gentleman?

Q: Hi, with Dow Jones. I just wanted to ask about the securities deal that you all announced today. If I'm reading this correctly, does this mean that foreign securities firms no longer need to form joint ventures before they can do a share transaction from China? And for foreign brokerages looking to expand into the fund management sector, do they no longer have to form joint ventures with domestic firms?

SECRETARY PAULSON: No, there's been – (inaudible) and it would be – to step back, that one of our big objectives of the SED is to be talking about things that go well beyond the WTO obligations and that means opening up China's markets to competition, their markets for goods and for services.

And the financial markets is one area we've emphasized a lot because opening up the financial markets will do things for the whole rest of the economy; it's a multiplier. And we have made the case repeatedly that you can't find an example anywhere in the world of outstanding capital markets that are composed of joint ventures. If you want outstanding capital markets, you let the best companies in the world come in to compete and that's the same with any other markets – any of the other, telecommunications markets, air service markets, any market.

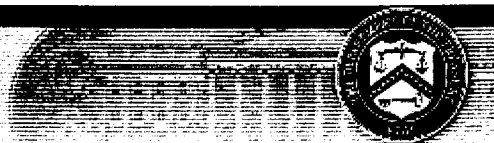
And so no, what we've announced have been incremental changes – what China's announced, not what we have announced. What China's announced have been incremental changes. So there's still joint ventures and what they said is that they will have to get a hold on joint ventures and securities areas so they're going to take the hold off and they're going to be setting up new joint ventures and they are then going to expand the products and services that existing joint ventures can offer, which is a positive step forward. They've also said that banks that have – U.S. banks and other foreign banks that have subsidiaries in China and can take Renminbi deposits will be able to issue their own Renminbi debit and credit cards. And then they've changed the QFII, expanded the QFII allocations. So that's what's been announced.

Q: Thank you very much.

SECRETARY PAULSON: Okay, thank you.

* CORRECTION: from \$20 billion.

PRESS ROOM



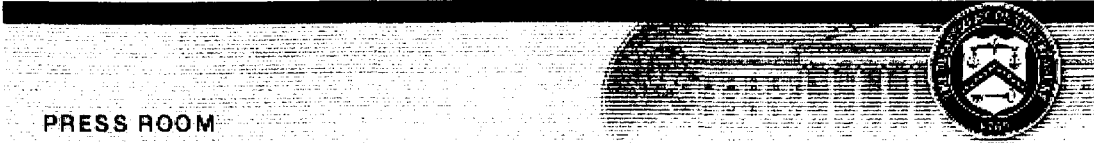
May 24, 2007
HP-422

**Under Secretary Steel
Statement on Section 404
Implementation Actions**

Washington, DC- U.S. Treasury Under Secretary for Domestic Finance Robert K. Steel released the following statement today regarding the Securities and Exchange Commission and the Public Company Accounting Oversight Board's votes to address the implementation of Section 404 of the Sarbanes-Oxley Act:

"The SEC and the PCAOB, after carefully considering the effects of Section 404, moved this week to strike the right balance in enhancing financial reporting quality and eliminating unintended costs. These key reforms should ensure that Section 404 is implemented in a risk-based and appropriately-scalable fashion, without sacrificing investor protection or diminishing the value of sound internal controls over financial reporting. Now that the regulators have acted, it is critical that public companies and the auditing profession respond to this call.

"Treasury congratulates the SEC, the PCAOB and their chairmen, Chris Cox and Mark Olson, for their cooperation in working to uphold investors' confidence in and the competitiveness of America's capital markets."



PRESS ROOM

May 24, 2007
HP-423

Benefits of Trade with China

- China is America's 4th largest export market and 2nd largest import supplier for goods trade. U.S. exports to China last year totaled \$55.2 billion and U.S. imports from China totaled \$287 billion.
- Since China joined the WTO in 2001, U.S. merchandise exports to China increased 187 percent. During the same period, U.S. exports to the rest of the world grew 38 percent.
- The United States has a services trade surplus with China. It was \$2.6 billion in 2005.
- Consumer goods, sporting equipment, apparel and footwear – relatively low value added consumer products – are among the U.S.'s top imports from China. High value-added manufacturing products are among top U.S. exports to China, such as electrical machinery and power generation equipment, medical instruments, plastics, aircraft, iron and steel, and agricultural products.
- China is often the last stop in the assembly process and thus the recorded import supplier to the United States. However, materials and components are often first imported into China from other Asian countries then assembled for export. Over 50 percent of China's goods exports are part of this global processing supply chain.
- U.S. industrial production (78 percent of which is manufactured goods) rose by 46 percent between 1994 and 2006.
- As the U.S. economy becomes increasingly globally integrated, the U.S. manufacturing base remains strong. While the U.S.'s manufacturing share of GDP is declining, America is still the world's number one manufacturer, accounting for more than 20 percent of worldwide manufacturing value-added – that's twice as much as Germany and more than 2.6 times as much as China. The U.S. manufactures more today than ever in its history – seven times as much real output as in 1950, with roughly the same number of workers as in 1950.

Global

- Increased international trade has raised real incomes, restrained prices, introduced greater product variety, spurred technological advances and innovation, and raised real living standards in the United States.
- The annual payoff from trade liberalization to date is over \$10,000 for an average American family of four. This includes the Tokyo Round, Kennedy Round and Uruguay Round, NAFTA and other U.S. free trade agreements.
- The removal of remaining global barriers to trade in goods and services could generate an additional \$600 billion in annual income for the United States. Most of these gains arise from liberalization of trade in services.

- Approximately 57 million American workers are currently employed by firms that engage in international trade. These firms tend to be more productive, have higher employment growth and pay their workers higher wages than domestically-oriented firms.

Imports

- International trade in goods and services exposes firms to foreign competition and reduces their ability to charge high markups above production costs. The average annual growth in U.S. import prices for the period 1990-2006 was just 1.4 percent compared to 3.1 percent for overall consumer prices.

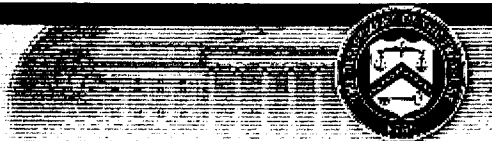
Exports

- Firms engaged in the international marketplace tend to exhibit higher rates of productivity growth and pay higher wages and benefits to their workers than domestically-oriented firms. Wages paid by manufacturing plants that export are 9 percent higher on average than wages paid by non-exporting plants of the same size. And the wage premium for service-oriented firms that export is even higher--13 percent.
- U.S. exports to the ten most recent U.S. FTA partner countries -- FTA's implemented between 2001 and 2006 -- grew twice as fast as U.S. exports to the rest of the world (26 percent versus 13 percent).
- Exports accounted for approximately 30 percent of U.S. economic growth in 2006.
- All 50 states benefit from exports: exports account for over 20 percent of manufacturing jobs in South Carolina and over 35 percent in Washington. Agricultural exports support nearly 400,000 jobs in the U.S. farm sector.

The Role of Multinational Firms

- International trade is an important channel of international commerce but it is not the largest channel. Many U.S. firms access foreign markets through foreign direct investment, and producing and selling abroad.
- U.S. firms deliver five times the value of services (and two and a half times the value of goods) through their foreign affiliates as they do through cross-border trade.
- Globally engaged U.S. multinationals on average pay their employees about 20 percent above the national average.
- U.S. multinationals have been one of the main drivers of overall U.S. productivity growth over the last three decades, and accounted for over half of U.S. productivity growth between 1977 and 2000, and for half of the increase in U.S. productivity growth between 1995 and 2000.
- Studies show that economic activity abroad by U.S. multinational companies complements domestic economic activity. One dollar of additional foreign capital spending is associated with \$3.50 of additional domestic capital spending. And when multinationals hire abroad they also expand employment here at home.
- While U.S. multinationals account for 25 percent of total U.S. output and 20 percent of employment, they account for a disproportionately high share of U.S. goods exports (49 percent), goods imports (31 percent), physical capital expenditures (29 percent), and research and development spending (68 percent).

PRESS ROOM



May 24, 2007
HP-424

**Treasury to Help Industry
Test Pandemic Outbreak Response**

Washington, DC- The Treasury Department announced today that it will sponsor an industry-wide exercise this fall for the financial services sector to test its ability to respond a pandemic crisis, such as a bird flu outbreak.

"A lack of preparedness could turn a biological problem into one that seriously affects the availability of financial services to Americans and the global economy," said D. Scott Parsons, Treasury Deputy Assistant Secretary for Critical Infrastructure Protection and Compliance Policy. "While the industry has taken up its responsibility and improved its response plans, there is still much work to be done. Treasury is encouraging financial institutions of all sizes from across the country, including banks, credit unions, securities firms and insurance companies, to participate."

President Bush directed Treasury in May 2006 to coordinate with the banking and finance sector to better prepare its response to a pandemic crisis.

The voluntary exercise will bring together the public and private sector through the Financial and Banking Information Infrastructure Committee and the Financial Services Sector Coordinating Council. The FBII-CFSSCC Pandemic Flu Exercise of 2007, beginning September 24 and running for three weeks, will focus on the continuity of financial services for Americans in the event of a pandemic crisis. The exercise will examine a number of issues including human resources, continuity of operations, and dependencies on other sectors such as transportation, energy and telecommunications.

The test will occur entirely online using a secure website hosted by the Securities Industry and Financial Markets Association. Treasury will release registration information in the coming weeks.



PRESS ROOM

May 23, 2007
HP-425

**The Second U.S. – China Strategic Economic Dialogue
May 22-23, Washington
Joint Fact Sheet**

In Washington on May 22 and 23, the United States and China held the second Strategic Economic Dialogue (SED). As special representatives of Presidents Bush and Hu, Treasury Secretary Henry M. Paulson, Jr. and Vice Premier Wu Yi served as co-chairs of the SED.

The United States and China agreed to the following principles building on the consensus reached at SED I:

- Promoting balanced economic growth in a manner compatible with sustained development is a shared responsibility of the two sides.
- Recognizing the importance of innovation in creating a prosperous economy, and encouraging market-oriented fair competition, effective property rights, and, specifically for small and medium enterprises, the development, management, and application of innovation.
- Strengthening cooperation on meeting respective goals in energy security, conservation, and efficiency; developing clean sources of energy; environmental protection; clean development; and addressing climate change.
- Cooperating and exchanging information on transparency to enhance predictability for market participants, promote confidence in our economies and build on their international obligations.

Discussions led to a number of results that strengthen and deepen the bilateral economic relationship, including:

- In financial services, China will resume licensing securities companies in the second half of 2007, and before SED III, China will announce to gradually expand the business scope of qualified joint-venture securities companies to allow them to be engaged in securities brokerages, propriety trading and asset management; increase the total quota for Qualified Foreign Institutional Investors (QFIIs) to \$30 billion under the prerequisite of promoting its international balance of payment; allow foreign incorporated banks qualified for RMB retail businesses to issue RMB bank cards which meet the operational and technical standards of China's banking cards, and enjoy the same treatment as Chinese banks; and allow foreign property insurance companies to apply for conversions into subsidiaries. China Insurance Regulatory Commission (CIRC) will complete decisions on pending applications by August 1, 2007. China expanded the scope of investment products for Qualified Domestic Institutional Investors (QDIIs). The United States strongly supports full membership of China at the Financial Action Task Force (FATF) in June 2007 with the understanding that China will take appropriate steps to ensure that it meets FATF's core membership criteria, confirms that any application by a Chinese bank to establish branches in the United States will be considered consistent with the principle of national treatment, and commits to regulatory personnel exchanges.
- In non-financial services and trade, both sides announced an agreement to expand the existing bilateral aviation agreement which greatly increases the number of flights between the two countries annually, provides for full liberalization for cargo services as of 2011, and both sides agreed to commence negotiations in 2010 on an agreement and timetable for full

liberalization of passenger services; a joint declaration to launch Chinese group leisure travel to the United States; a MOU on sovereign guarantee financing cooperation; and the import by China of U.S. railway equipment. Both sides agreed on "Guidelines for U.S.-China High Technology and Strategic Trade Development." Both sides will continue to cooperate on transparency in government legislation, and co-host a seminar involving administrative licenses. China will publish revised implementing regulations on international freight forwarding in 2007.

In energy and the environment, the United States and China agreed to work together in a pragmatic manner to actively participate in WTO multilateral negotiations on trade and environment, and engage in discussions on the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services. The United States and China will strengthen cooperation in the following areas: advancing clean coal technology, aiming to develop up to 15 large-scale coal-mine methane capture projects in China, finalizing participation of China in the Government Steering Committee of the FutureGen project, providing policy incentives to abolish cost barriers to full commercialization of advanced coal technologies, advancing the research and development of carbon capture and storage technologies, and formulating a national low sulfur fuel policy for China. The United States and China jointly announce an agreement for voluntary energy efficient product endorsement labeling (EnergyStar) certification. Both countries signed a Memorandum of Cooperation on Nuclear Safety for the Westinghouse AP1000 Nuclear Reactor.

- In balancing growth, the United States will provide technical assistance on developing financial markets and rural finance. Both countries agree to staff exchanges and information sharing regarding labor market policies. The U.S. – China Health Care Forum was successfully convened prior to SED II. The United States and China also agree to pursue significant measures to lower China's national saving rate and increase the United States national saving rate. The United States welcomes China's announcement to widen the RMB daily trading band.
- In innovation, China's General Administration of Customs, and the U.S. Customs and Border Protection, Department of Homeland Security signed a Memorandum of Cooperation on IPR Enforcement. The United States and China also signed a letter of intent on the establishment of a consultative mechanism in standards and trade-related technical measures and will host a seminar on the critical elements of technical innovation.

Both sides decided to prioritize work during the next six months in several areas:

- To promote a reduction in current account imbalances in a manner compatible with sustained economic growth, China will continue to deepen reform of the exchange rate regulation system, further improve the formation of a RMB exchange rate mechanism, bring into greater role of market supply and demand, and increase the flexibility of the exchange rate. The United States will implement measures to increase long run fiscal responsibility and introduce new ways to encourage private saving. Both sides also agree to strengthen cooperation on health care services and statistics related to U.S.-China trade and employment. The United States welcomes Chinese investment in the United States, and China welcomes U.S. investment in China.
- Launch agreement consultations to facilitate Chinese group leisure travel to the United States, continue discussions on the possibility of a bilateral investment agreement, and strengthen consultation and cooperation on China's market economy status. The two sides shall seek to clarify misunderstandings and resolve differences to promote the rapid development of civilian high technology and strategic trade. China will streamline the application and licensing process for the provision of enterprise annuities including by foreign-invested enterprises by SED III.
- Engage in dialogue on illegal logging and explore ways to cooperate including through a bilateral agreement. Continue exchanges on management of oceans and fisheries, strategic petroleum reserves, and on fostering environmentally sound management of recyclable waste materials; strengthen cooperation on the Global Nuclear Energy Partnership and

promote bilateral exchanges and cooperation on energy, environmental protection, and clean development and climate change; and advance the Joint Study of Abatement Strategies.

- Identify new areas of cooperation to strengthen innovation capabilities, as well as deepening cooperation to enhance laws, policies, programs and incentives that encourage innovation. The United States and China will continue to cooperate on transparency in rule-making, inviting representatives from their legislative and judicial organs of government to appropriate future meetings.

The third SED will be held in Beijing in December 2007.

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PRESS ROOM

May 29, 2007
HP-426

Treasury Designation Targets Sudanese Government, Rebel Leader

The U.S. Department of the Treasury today blocked the assets of three Sudanese individuals, including two high-ranking government officials and a rebel leader, for their roles in fomenting violence and human rights abuses in Darfur. The Treasury also acted today to sanction 30 Sudanese companies owned or controlled by the Government of Sudan, and one company that has violated the arms embargo in Darfur.

"Even in the face of sanctions, these individuals have continued to play direct roles in the terrible atrocities of Darfur," said Treasury Secretary Henry M. Paulson, Jr. "We are working to call attention to their horrific acts and further isolate them from the international community."

Ahmad Muhammed Harun, Sudan's State Minister for Humanitarian Affairs, has been accused of war crimes in Darfur by the International Criminal Court in the The Hague. Sudan's head of Military Intelligence and Security, Awad Ibn Auf, was also designated today, along with Khalil Ibrahim, leader of the Justice and Equality Movement (JEM), a rebel group that has refused to sign the Darfur Peace Agreement.

Harun and Auf are among Khartoum's senior leadership and have acted as liaisons between the Sudanese government and the Government-supported Janjaweed militias, which have attacked and brutalized innocent civilians in the region. The two individuals also have provided the Janjaweed with logistical support and directed attacks. Hundreds of thousands of people have been killed and more than 2.5 million people have been displaced by violence and war since 2003. Previously, Harun served as State Minister for the Interior, and played a central role in coordinating and planning military operations in Darfur between 2003 and 2005. In the 1990s he was responsible for massacres in the Nuba Mountains and was nicknamed "the Butcher of Nuba."

Fighting between the Government of Sudan, the Janjaweed, and splintered rebel groups has continued unabated in Sudan, despite the signing of the African Union-brokered Darfur Peace Agreement in May 2006. The Government of Sudan and the largest rebel group, the Sudan Liberation Movement, signed the agreement, but other rebel groups, including the JEM, declined to do so. The JEM is responsible for violence and suffering in Darfur and Khalil Ibrahim, as leader of the JEM, is personally responsible for rebel activity aimed at further destabilizing the situation on the ground.

Today's action brings to seven the number of Sudanese individuals for whom access to the U.S. financial system is prohibited under Executive Order 13400, which targets perpetrators of human rights abuses in Darfur in western Sudan. Azza Air Transport Company has also been sanctioned under Executive Order 13400 for transferring small arms, ammunition and artillery to Sudanese government forces and Janjaweed militia in Darfur.

An additional 30 companies have been designated today pursuant to Executive Orders 13067 and 13412 because they are owned or controlled by the Government of Sudan. These orders permit the imposition of economic sanctions on the Sudanese government for its continued support for international terrorism, ongoing efforts to destabilize neighboring governments, and human rights violations – in

particular with respect to the conflict in Darfur. The United States first imposed sanctions on the Government of Sudan in 1997.

"These companies have supplied cash to the Bashir regime, enabling it to purchase arms and further fuel the fighting in Darfur," added Paulson. "By denying these companies access to the U.S. and international financial system, we will make it harder for the Government of Sudan to pursue its deadly agenda."

Among the companies designated in today's action are GIAD Industrial City, which has supplied armored vehicles to the Sudanese government for military operations in Darfur; Sudatel, the national telecommunications company; and five firms in the petrochemical sector, including Advanced Petroleum Company, RAM Energy Company, Bashaier, Hi-Tech Petroleum Group, and Hi-Tech Chemicals.

As a result of Treasury's designations, any assets these individuals and entities may have that are within U.S. jurisdiction must be frozen, and U.S. persons are prohibited from transacting or doing business with them.

The United States, the single largest international donor of humanitarian assistance to Sudan, has called for an end to the fighting in Darfur and for those responsible for crimes and atrocities to be brought to justice. In particular, the United States, along with the international community, is concerned about recent attacks on humanitarian workers in Darfur.

The United States continues to push for a peaceful political solution that will end the violence in Darfur and allow refugees and displaced persons to return to their homes.

A complete list of the individuals and entities designated today is posted at the following link:
<http://www.treasury.gov/offices/enforcement/ofac/actions/20070529.shtml> .



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05/29/2007

The names below with the description of [DARFUR] have been added to the SDN list pursuant to E.O. 13400 of April 26, 2006 as contributing to the conflict in the Darfur region.

The following individuals have been added to OFAC's SDN list:

AUF, Awad Ibn (a.k.a. AUF, Awad Muhammad Ibn; a.k.a. AUF, Mohammed Ahmed Awad Ibn; a.k.a. AWF, Awad Ahmad Ibn; a.k.a. AWF, Awad Ibn; a.k.a. NAUF, Awad Mohammed Ahmed Ebni; a.k.a. OAF, Awad Mohamed Ahmed Ibn; a.k.a. OUF, Awad Mohamed Ahmed Ibn); DOB circa 1954; nationality Sudan; Head of Military Intelligence and Security (individual) [DARFUR]

HARUN, Ahmad Muhammed (a.k.a. HAROUN, Ahmed Mohamed; a.k.a. HAROUN, Ahmed Mohammed; a.k.a. HARUN, Ahmad; a.k.a. HARUN, Ahmad Muhammad; a.k.a. HARUN, Mawlana Ahmad Muhammad); DOB 1964; POB Kordofan, Sudan; nationality Sudan; State Minister for Humanitarian Affairs; former State Minister for the Interior; former Coordinator of the Popular Police Forces (individual) [DARFUR]

TAHA, Khalil Ibrahim Mohamed Achar Foudail (a.k.a. IBRAHIM, Khalil; a.k.a. MOHAMED, Khalil Ibrahim); DOB 15 Jun 1958; POB El Fasher, Sudan; alt. POB Al Fashir, Sudan; nationality Sudan; National Foreign ID Number 4203016171 (France) issued 20 Feb 2004; Registration ID 0179427 (France); Chairman, Justice and Equality Movement; Co-founder, National Redemption Front (individual) [DARFUR]

The following entities have been added to OFAC's SDN list:

ADVANCED ENGINEERING WORKS, Street No. 53, P.O. Box 44690, Khartoum, Sudan [SUDAN]

ADVANCED MINING WORKS COMPANY LIMITED, Elmek Nimir Street, Khartoum Bahri/Industrial Area, P.O. Box 1034, Khartoum 11, Sudan; Email Address admico@sudanmail.net (Sudan) [SUDAN]

ADVANCED PETROLEUM COMPANY (a.k.a. APCO), House No. 10, Block 9, Street 33, Amarat, P.O. Box 12811, Khartoum, Sudan [SUDAN]

ADVANCED TRADING AND CHEMICAL WORKS COMPANY LIMITED (a.k.a. ADVANCED CHEMICAL WORKS; a.k.a. ADVANCED COMMERCIAL AND CHEMICAL WORKS COMPANY LIMITED), 19 Al Amarat Street, P.O. Box 44690, Khartoum, Sudan; Email Address advance@sudanmail.net (Sudan); alt. Email Address accw@htg-sdn.com (Sudan) [SUDAN]

AL SUNUT DEVELOPMENT COMPANY (a.k.a. ALSUNUT DEVELOPMENT COMPANY), No. 1 Block 5 East, Khartoum 2, P.O. Box 1840, Khartoum, Sudan; Website

www.alsunut.com (Sudan); Email Address info.AlsunutKhartoum@alsunut.com; Email Address info.AlsunutDubai@alsunut.com [SUDAN]

ALFARACHEM COMPANY LIMITED (a.k.a. AL PHARAKIM; a.k.a. ALFARACHEM PHARMACEUTICALS INDUSTRIES LIMITED; a.k.a. ALFARAKIM), 27 Al Amarat Street, Khartoum, Sudan [SUDAN]

ARAB SUDANESE BLUE NILE AGRICULTURAL COMPANY, Khartoum, Sudan [SUDAN]

ARAB SUDANESE SEED COMPANY, Khartoum, Sudan [SUDAN]

ARAB SUDANESE VEGETABLE OIL COMPANY, Khartoum, Sudan [SUDAN]

ASSALAYA SUGAR COMPANY LIMITED, Eastern Bank of White Nile River, near Rabak town (about 300 km from Khartoum, P.O. Box 511, Khartoum, Sudan [SUDAN]

AZZA AIR TRANSPORT COMPANY LTD. (a.k.a. AZZA AVIATION COMPANY; a.k.a. AZZA TRANSPORT), German Culture Center, McNimer Street, P. O. Box 11586, Khartoum, Sudan [DARFUR]

BASHAIER, Khartoum, Sudan [SUDAN]

GIAD AUTOMOTIVE INDUSTRY COMPANY LIMITED (a.k.a. GIAD AUTOMOTIVE AND TRUCK; a.k.a. GIAD AUTOMOTIVE COMPANY; a.k.a. GIAD CARS & HEAVY TRUCKS COMPANY), Gazera State (40 km distance from Khartoum), P.O. Box 444/13600, Khartoum 1111, Sudan; Website www.giadmotors.com/giad_auto.html [SUDAN]

GIAD MOTOR INDUSTRY COMPANY LIMITED (a.k.a. GIAD MOTOR COMPANY), Basheer Mohammad Saeed Building, Baladia Street, P.O. Box 13610, Khartoum, Sudan; Website www.giadmotors.com (Sudan) [SUDAN]

GUNEID SUGAR COMPANY LIMITED (a.k.a. GUNEID SUGAR FACTORY), P.O. Box 511, Khartoum, Sudan [SUDAN]

HI TECH GROUP (a.k.a. HIGH TECH GROUP; a.k.a. HIGHTECH GROUP; a.k.a. HITECH GROUP), Amarat Street No. 31, P.O. Box 44690, Khartoum, Sudan; Website www.htg-sdn.com (Sudan) [SUDAN]

HICOM (a.k.a. HI-COM), Khartoum, Sudan [SUDAN]

HICONSULT (a.k.a. HI-CONSULT), Khartoum, Sudan [SUDAN]

HI-TECH CHEMICALS, Khartoum, Sudan [SUDAN]

HI-TECH PETROLEUM GROUP, Khartoum, Sudan [SUDAN]

NEW HALFA SUGAR FACTORY COMPANY LIMITED (a.k.a. NEW HALFA SUGAR COMPANY), El Gamaa Street (Aljama Street), New Halfa, P.O. Box 511/3047, Khartoum, Sudan; Email Address sukar@sudanmail.net (Sudan) [SUDAN]

PETROHELP PETROLEUM COMPANY LIMITED, Building No. 20, Street No. 42, Al Riyadh Area, P.O. Box 44690, Khartoum, Sudan [SUDAN]

RAM ENERGY COMPANY LIMITED, Altiyadh Street 131/Almashtal Street, Block 12, House No. 87, P.O. Box 802, Khartoum, Sudan [SUDAN]

SENNAR SUGAR COMPANY LIMITED, P.O. Box 511, Khartoum, Sudan; Email Address sukar@sudanmail.net (Sudan) [SUDAN]

SHEIKAN INSURANCE AND REINSURANCE COMPANY LIMITED (a.k.a. SHEIKAN INSURANCE COMPANY), Al Souq Al Arabi, Sheikan Building, Khartoum SU001, P.O. Box 10037, Khartoum, Sudan; Email Address sheikan@sudanmail.net (Sudan) [SUDAN]

SUDAN ADVANCED RAILWAYS, Khartoum, Sudan [SUDAN]

SUDAN GEZIRA BOARD (a.k.a. GEZIRA SCHEME), Khartoum Gezira Scheme Building, 39th Street, P.O. Box 884, Khartoum, Sudan [SUDAN]

SUDAN MASTER TECHNOLOGY (a.k.a. GIAD INDUSTRIAL CITY; a.k.a. GIAD INDUSTRIAL GROUP; a.k.a. SUDAN MASTER TECH), SMT Building, Gamhuria Street, GIAD Industrial Complex, P.O. Box 10782, Khartoum, SU001, Sudan; Email Address info@sudanmaster.com (Sudan); Website www.sudanmaster.com (Sudan) [SUDAN]

SUDAN TELECOMMUNICATIONS COMPANY LIMITED (a.k.a. SUDATEL), 9th Floor, Sudatel Tower, Nile Street, Khartoum, Sudan; Sudatel Tower, Al Horriya Street, P.O. Box 11155, Khartoum, Sudan; Email Address info@sudatel.net (Sudan); Website www.sudatel.net/en (Sudan) [SUDAN]

SUDANESE SUGAR PRODUCTION COMPANY LIMITED (a.k.a. SUDANESE SUGAR COMPANY), El Gamaa Street (Aljama Street), Opposite the Authority of Electricity Building, P.O. Box 511, Khartoum, Sudan; P.O. Box 511, Building No. 3-Block No. 7, Alshatte Gharb-Gammaa Avenue, Khartoum, Sudan; Email Address sukar@sudanmail.net (Sudan) [SUDAN]

WAFRA PHARMA LABORATORIES (a.k.a. WAFRA PHARMACEUTICALS; a.k.a. WAFRAPHARMA LABORATORIES), Main Street, P.O. Box 2032, Omdurman, Sudan; Email Address wafamed@sudanmail.net (Sudan) [SUDAN]



PRESS ROOM

May 29, 2007
HP-427

**Prepared Remarks of Adam J. Szubin
Director of the Treasury Department's Office
of Foreign Assets Control**

The Office of Foreign Assets Control at the Treasury Department administers financial sanctions to advance our national security and foreign policy goals. The United States first levied financial sanctions against the Government of Sudan in 1997, in response to its repeated violations of human rights and support for international terrorism. In 2005, the United Nations Security Council put in place a targeted sanctions regime imposing worldwide financial and travel restrictions against individuals responsible for the crisis in Darfur.

Over the past several months, at the direction of the President, Secretary Paulson, and Secretary Rice, my office has worked to both expand and strengthen financial measures against the Bashir regime and other culpable parties in Sudan. These measures fall into four broad categories.

First, as the President announced this morning, we have today designated three individuals and one company under Executive Order 13400, which targets those who commit atrocities and foment instability in Darfur. The designated individuals are:

- Ahmad Haroun, a Sudanese Government minister who has been publicly accused of war crimes by the International Criminal Court in the Hague
- Awad Ibn Auf, the director of Sudan's Military Intelligence office, and
- Khalil Ibrahim, the leader of the rebel group "Justice and Equality Movement," who is responsible for acts of violence in Darfur and for undermining the Darfur Peace Agreement.

We have also designated Azza Air Transport under this authority, a company that has moved arms and artillery to Janjaweed militia and Sudanese Government forces in Darfur.

Second, today we designated 30 companies owned or controlled by the Government of Sudan under Executive Orders 13067 and 13412. The targeted companies include five petrochemical companies, Sudan's national telecommunications company, and an entity that has supplied armored vehicles to the Sudanese Government for military operations in Darfur.

All of the individuals and companies designated today are now cut off from the U.S. financial system. They may not do business with U.S. individuals or companies located anywhere in the world, and any of their assets that come into the possession of a U.S. person or institution must be frozen.

Third, we have stepped up enforcement of our Sudanese sanctions across the board. This means aggressive investigation of the methods and accomplices that the Government of Sudan may be using to circumvent our sanctions and access the U.S. financial system illegally. Those who direct or facilitate evasion of our sanctions should be on notice: we will be vigilant and the penalties are serious, including potential criminal prosecution.

Finally, our State Department colleagues are working to introduce a new U.N. Security Council resolution that will reinforce the measures we are taking in the

United States, and impose new sanctions against the Government of Sudan and its agents on a global scale.

Collectively, these measures are aimed at bringing stability and peace to Darfur, and ensuring that the Bashir regime takes meaningful steps to alleviate – rather than aggravate – the suffering that is occurring there. We hope that is the case, and we will be watching.



May 29, 2007
2007-5-29-17-47-46-23791

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 \$65,835 million as of the end of that week, compared to \$66,041 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	May 25, 2007		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			65,835
(a) Securities	12,854	10,442	23,296
of which: issuer headquartered in reporting country but located abroad			0
(b) total currency and deposits with:			
(i) other national central banks, BIS and IMF	12,893	5,119	18,012
ii) banks headquartered in the reporting country			0
of which: located abroad			0
(iii) banks headquartered outside the reporting country			0
of which: located in the reporting country			0
(2) IMF reserve position	4,521		
(3) SDRs	8,965		
(4) gold (including gold deposits and, if appropriate, gold swapped)	11,041		
--volume in millions of fine troy ounces	261.499		
(5) other reserve assets (specify)	0		
--financial derivatives			
--loans to nonbank nonresidents			
--other			
B. Other foreign currency assets (specify)			
--securities not included in official reserve assets			
--deposits not included in official reserve assets			
--loans not included in official reserve assets			
--financial derivatives not included in official reserve assets			
--gold not included in official reserve assets			
--other			

II. Predetermined short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits					
--outflows (-)	Principal				
	Interest				
--inflows (+)	Principal				
	Interest				
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)					
(a) Short positions (-)					
(b) Long positions (+)					
3. Other (specify)					
--outflows related to repos (-)					
--inflows related to reverse repos (+)					
--trade credit (-)					
--trade credit (+)					
--other accounts payable (-)					
--other accounts receivable (+)					

III. Contingent short-term net drains on foreign currency assets (nominal value)

			Maturity breakdown (residual maturity, where applicable)		
		Total	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency					
(a) Collateral guarantees on debt falling due within 1 year					
(b) Other contingent liabilities					
2. Foreign currency securities issued with embedded options (puttable bonds)					
3. Undrawn, unconditional credit lines provided by:					
(a) other national monetary authorities, BIS, IMF, and other international organizations					
--other national monetary authorities (+)					
--BIS (+)					
--IMF (+)					
(b) with banks and other financial institutions headquartered in the reporting country (+)					

(c) with banks and other financial institutions headquartered outside the reporting country (+)				
Undrawn, unconditional credit lines provided to:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
--other national monetary authorities (-)				
--BIS (-)				
--IMF (-)				
(b) banks and other financial institutions headquartered in reporting country (-)				
(c) banks and other financial institutions headquartered outside the reporting country (-)				
4. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency				
(a) Short positions				
(i) Bought puts				
(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options ¹¹				
(1) At current exchange rate				
(a) Short position				
(b) Long position				
(2) + 5 % (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) - 5 % (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10 % (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) - 10 % (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

IV. Memo items

(1) To be reported with standard periodicity and timeliness:	
(a) short-term domestic currency debt indexed to the exchange rate	
(b) financial instruments denominated in foreign currency and settled by other means (e.g., in domestic	

(currency)	
--nondeliverable forwards	
--short positions	
--long positions	
--other instruments	
(c) pledged assets	
--included in reserve assets	
--included in other foreign currency assets	
(d) securities lent and on repo	
--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--swaps	
--options	
--other	
(f) derivatives (forward, futures, or options contracts) that have a residual maturity greater than one year, which are subject to margin calls.	
--aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)	
(a) short positions (-)	
(b) long positions (+)	
--aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency	
(a) short positions	
(i) bought puts	
(ii) written calls	
(b) long positions	
(i) bought calls	
(ii) written puts	
(2) To be disclosed less frequently:	
(a) currency composition of reserves (by groups of currencies)	
--currencies in SDR basket	65,835
--currencies not in SDR basket	65,835
--by individual currencies (optional)	

Notes:

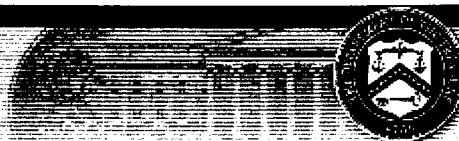
1/ Includes holdings of the Treasury's Exchange Stabilization Fund (ESF) and the Federal Reserve's System Open Market Account (SOMA), valued at current market exchange rates. Foreign currency holdings listed as securities reflect marked-to-market values, and deposits reflect carrying values.

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



May 30, 2007
HP-428

**Statement by Secretary Paulson on World Bank
President Nominee Robert Zoellick**

"I welcome the President's nomination of Bob Zoellick to lead the World Bank. The World Bank's structure and mission require a leader with a proven track record of working with colleagues around the world to get results. Bob Zoellick will bring that experience, as well as a passion for development, to the job.

"Bob believes deeply in the mission of the World Bank, and has the trust, respect, and support of governments in all regions of the world. His leadership will ensure that the World Bank continues to focus on its mission, helping nations across the globe invest in their people and lay the foundation for economic growth so as to reduce poverty and bring opportunities to all their citizens."

PRESS ROOM



May 30, 2007
HP-429

**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

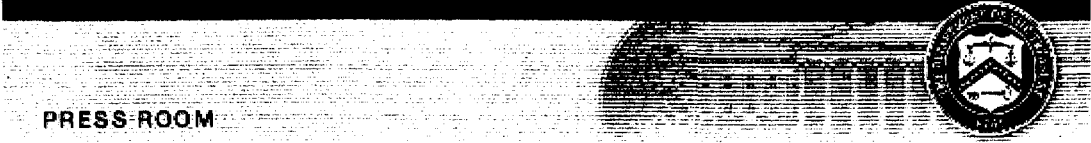
Friday, June 1, 2007, 10:00 a.m. (EDT)

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 frances.anderson@do.treas.gov with the following information: full name, Social Security number and date of birth.



PRESS ROOM

May 30, 2007
HP-430

**Biography of Robert B. Zoellick
Nominee to be World Bank President**

Mr. Zoellick, 53, has led and managed large public and private sector organizations, achieving a record of results during times of rapid change. He motivates, builds loyalty and constituent support, and focuses on strategies and goals. He has worked successfully with all regions of the world on a variety of economic, political, security, environmental, and humanitarian topics – developing coalitions internationally and bipartisan backing at home. Since first traveling to Sub-Saharan Africa in the 1980s, he has worked with all regions of the continent on security, development, governance, trade, business and investment, health, environmental, and humanitarian causes.

Mr. Zoellick first studied economic development in 1973, when he learned the theoretical foundations of the subject, as well as the comparative experience of the ASEAN countries in the 1950s and 1960s. Since then, he has had a strong and continuing interest in the literature, history, and practice of overcoming poverty, sustainable economic development, and growth in his own country and the diverse nations of the developing world. Mr. Zoellick has had the opportunity to gain considerable experience with governance, management, policy, and performance of multilateral organizations, national governments, private businesses, financial markets, foundations, civil society groups, and non-profit organizations. His background has enabled him to appreciate both the challenge of and need to achieve the Millennium Development Goals.

Mr. Zoellick is currently Vice Chairman, International of the Goldman Sachs Group, and a Managing Director and Chairman of Goldman Sachs' Board of International Advisors. In addition to working with clients in Europe and the United States, Mr. Zoellick has had a strategic role in the firm's expansion of financial markets business and investment in China, Southeast Asia, India, the Middle East, Russia, and Latin America. He serves in the Executive Office and on the firm's Risk and Business Practices Committees. His work at Goldman Sachs since September 2006 has offered him both strategic and transactional insights on the cutting-edge developments in global and local financial markets.

In 2005-06, Mr. Zoellick served as Deputy Secretary of the U.S. State Department. He was the Chief Operating Officer of the Department, which has 57,000 employees and embassies in 165 countries. As Deputy, Mr. Zoellick had to be familiar with the full range of foreign policy matters in order to support the Secretary. More particularly, he focused attention on economic, environmental, and transnational (eg. health) issues; Africa; China; Northeast and Southeast Asia; Latin America; and Mideast development topics.

Mr. Zoellick was deeply involved with the efforts to overcome the tragedies in Sudan. He worked with multilateral, national, and private aid and humanitarian organizations on the reconstruction and development of the new Government of Southern Sudan, created through the Comprehensive Peace Accord of 2005. During his many visits to camps all over Darfur, Zoellick worked closely with the African Union, UN organizations, partner countries, and NGOs to improve security and basic conditions, while looking to take on the crisis of development if peace could be restored; he worked in Khartoum and Abuja to press for a path to peace. As point person on this issue, Mr. Zoellick also operated closely with the U.S. Congress and a vast range of civil society groups. He was the first person to start to draw China constructively into the peace effort.

Mr. Zoellick also guided U.S. efforts in Aceh's reconstruction after the devastating tsunami. In addition to his ties to Indonesian officials, he dealt with multilateral institutions, other national governments, and non-profit organizations. Further in the area of development, Zoellick continued the multidimensional work he initiated as U.S. Trade Representative with the broader Middle East and Central America, and assisted with the regional multilateral development banks.

Mr. Zoellick initiated a Strategic Dialogue with China, covering foreign policy, economic, development, energy, security, and political topics. His efforts led to a re-articulation of U.S. policy to encourage China to join others as "responsible stakeholders" in the international system.

From 2001 to January 2005, Mr. Zoellick served in the President's cabinet as U.S. Trade Representative. He forged an activist approach to free trade at the global, regional, and bilateral levels, while securing support for open markets with the U.S. Congress and a broad coalition of domestic constituencies. In doing so, Zoellick sought to combine national economic interests with others – in development; foreign policy; security; governance, transparency, and the rule of law; health; the environment; education; worker adjustment; and improved working conditions. In the immediate aftermath of September 11th, Zoellick wrote a piece in the Washington Post emphasizing the importance of open markets, open societies, and development to counter the poverty and hopelessness that can become the breeding ground for terrorism.

In 2001, Mr. Zoellick labored with Ministers from almost 150 other economies to launch the Doha Development Agenda, while at the same time persuading the U.S. Congress to restore the President's lapsed trade negotiating authority and completing the accession of China and Taiwan to the WTO. He then advanced proposals to eliminate all tariffs on manufacturing goods, and to eliminate agricultural export subsidies, slash domestic farm subsidies, and vastly improve access to agricultural markets. Zoellick also worked with developing countries, pharmaceutical companies, and the full WTO membership to achieve accords on special access to medicines within the WTO's rules for intellectual property. In 2004, he led the international effort to get the Doha negotiations back on track by assembling a more detailed framework to guide the next stage of commitments. To do so, he worked closely with African cotton producers to incorporate their interests. Zoellick continues to believe a Doha accord can and should be achieved for development and growth.

Mr. Zoellick also devised the plans to launch a Middle East Free Trade Area, the Enterprise for ASEAN Initiative, and other ventures to foster trade and development. He pushed for free trade throughout the Americas, linked to aid, investment, business networks, and other supportive policies. Zoellick enacted or completed FTAs with Jordan, Chile, Singapore, Morocco, Bahrain, the five countries of Central America and the Dominican Republic, Australia, and Viet Nam (a basic trade agreement). He launched FTAs that were completed later with Oman, Peru, Colombia, and Panama. And he began to create a special trade project with the five countries of the Southern African Customs Union. Zoellick also completed or pushed for the accessions to the WTO of Cambodia, Saudi Arabia, Viet Nam, Russia, and others.

The comprehensive nature of the U.S. FTAs was designed to support governments advancing institutional, structural, and microeconomic reforms, including transparency, regulatory processes, customs and trade facilitation, rule of law, and anti-corruption – as well as to open markets with extensive transitions for developing economies. The accords were also the first to include enforceable commitments on environment and labor, which Zoellick sought to supplement with aid, joint projects, and the involvement of civil society groups. To support these initiatives, he appointed Assistant USTRs for Environment and Labor, and guided their new approaches. He also worked with the leadership of the ILO and WHO to strengthen cooperation.

Mr. Zoellick was the first USTR to travel to Sub-Saharan Africa; in his final year, he visited for consultations three times. Working to expand and fully utilize the African Growth & Opportunity Act (AGOA), Zoellick led U.S. delegations to the AGOA

forums to encourage trade, investment, business growth, and supportive development policies. To foster this effort, he built partnerships with regional African groups, such as COMESA, SADC, SACU, ECOWAS, and WAEMU, as well as with the African Development Bank and the AU. He also fostered African participation in the WTO processes, working through the lead Ministers for the LDC, ACP, and African groups.

Mr. Zoellick drew extensively from World Bank research in making the case for open trade. He worked closely with the Inter-American Development Bank, the U.S. Congress, the U.S. Agency for International Development, OPIC, and others to improve trade capacity-building. His efforts to combine trade and aid effectively prompted the U.S. Congress to appoint the U.S. Trade Representative to the board of the newly created U.S. Millennium Challenge Corporation, an innovative aid design that drew on the World Bank's research and standards for accountability across the pillars of development.

In addition to active outreach with business and farm groups, Zoellick sought the advice and assistance of environmental, labor, and civil society groups, including through formal advisory committees. He followed a similar approach abroad, meeting with non-governmental groups – from labor unions, indigenous peoples' organizations, women's empowerment associations, and environmental groups to micro-lenders, small businesspeople, and university students, in order to listen, learn, and discuss the challenges and opportunities of globalization.

After leaving government service, Mr. Zoellick met with the World Bank staff at their request to discuss trade policy, negotiations, and development.

From 1993 to 1997, Mr. Zoellick served as an Executive Vice President of Fannie Mae, the large housing finance corporation. He supervised the affordable housing business, as well as offices dealing with legal, regulatory, government and industry relations, and international services. The international services staff worked with governments in Latin America, Asia, and Russia seeking to build mortgage markets.

Zoellick's affordable housing work at Fannie Mae involved establishing business ties with Governors, Mayors, other state and local officials, low income housing groups, Native American organizations, non-profits, as well as with multifamily housing developers, realtors, homebuilders, and a wide range of financial providers. He managed affordable housing staffs in regional and state or city partnership offices across the country. His corporate activities also involved dealing with investors, complex asset-liability and credit risk management, and the global capital markets. (During an earlier period at Fannie Mae, from 1983-1985, Zoellick served as Vice President and Assistant to the Chairman and CEO while the company executed a business turnaround strategy after the surge of high interest rates exposed its asset-liability mismatch).

Following Fannie Mae, Zoellick served for a year as the Olin Visiting Professor at the U.S. Naval Academy, as a Senior Advisor to Goldman Sachs, as a Research Scholar at the Belfer Center at Harvard University, and on three corporate boards (Alliance Capital, Said Holdings, and Jones Intercable). During the 1990s, he also served on many non-profit boards, among them the Council on Foreign Relations, the European Institute, the American Council on Germany, the American Institute of Contemporary German Studies, the German Marshall Fund of the U.S., the National Bureau of Asian Research, the Overseas Development Council, and the Advisory Councils of the World Wildlife Fund and the Institute of International Economics.

From 1985 to 1993, Mr. Zoellick served with Secretary James A. Baker, III at the Treasury Department (from Deputy Assistant Secretary for Financial Institutions Policy to Counselor to the Secretary); State Department (Undersecretary of State for Economic and Agricultural Affairs as well as Counselor of the Department with Undersecretary rank); and briefly Deputy Chief of Staff at the White House and Assistant to the President. He was the "Sherpa" to the President for the preparation of the Economic Summits in 1991-92.

In his years at the Treasury Department, Zoellick was deeply involved with the recovery from the debt crises of the 1980s. This period was his first substantial professional experience with the World Bank, IMF, and regional banks – a time of emphasis on structural reforms and, with the IMF, an exploration of international surveillance and coordination. The U.S. Treasury also urged the World Bank to incorporate environmental assessments in its lending programs during this period.

As an Undersecretary of State (and as Alternate Governor to the World Bank and regional banks), Zoellick worked with the International Financial Institutions in dealing with the post-Communist "Economies in Transition," debt forgiveness, and support for investment. This was also the period when donors and lenders started to focus more attention on good governance practices to help lay a foundation for sound development and growth.

In related economic activities, Zoellick was the lead State Department official in the NAFTA and Uruguay Round (GATT) negotiations, contributing to the "Blair House" agreement on agriculture, a critical breakthrough for the Uruguay Round. He was one of the founding architects of APEC in 1989, a designer of the Enterprise for the Americas Initiative, and participated in the founding of the EBRD. At the Treasury Department, he supported Secretary Baker in the completion of the U.S.- Canada FTA.

In his capacity overseeing the Office of Oceans, Environment, and Science at the State Department, Zoellick worked with EPA Administrator Bill Reilly to guide the U.S. negotiations in achieving the Global Climate Change Framework Agreement of 1992. He achieved bans on driftnet fishing and elephant ivory sales; helped conclude the long-term moratorium for Antarctic development; incorporated environmental funds into arrangements to forgive official debt in Latin America, Africa, and Central and Eastern Europe; sought to strengthen CITES enforcement; and guided negotiations for the creation of the Global Environmental Facility (GEF) at the World Bank. While at the Treasury Department, working in concert with the Environment and Science staff at the Smithsonian Institution, he initiated the change in tax policy that first created the basis for private debt-for-nature swaps.

Mr. Zoellick was also a principal actor on a wide range of political-security issues that encouraged and eased the end of the Cold War. He led the U.S. delegation in the Two-plus-Four negotiations for German unification. He actively participated in the diplomacy and negotiations for the ending of the conflicts in Central America from 1989-92; was a strategist for the transformation of NATO and new institutional links between the U.S. and the changing institutions of the EU; helped guide landmark arms reduction accords with the then-Soviet Union (Conventional Forces, Strategic Arms, and Chemical Weapons); and played a key role assisting the new democracies of Central and Eastern Europe.

On the domestic financial front at the Treasury Department, Zoellick helped design and enact the legislation restructuring the Farm Credit System, played a key support role during and after the market crash of October 1987, and fought for the first efforts to clean up and recapitalize the S&L industry. Starting during this period, and continuing through his later government service, Zoellick developed close working relations with the Federal Reserve Board of Governors and staff.

Mr. Zoellick graduated Phi Beta Kappa from Swarthmore College in 1975. He earned a J.D. magna cum laude from the Harvard Law School and a MPP (focusing on public management and international issues, especially economics) from the Kennedy School of Government in 1981. He lived in Hong Kong on a fellowship in 1980.

Zoellick has been privileged to receive a number of awards, including: the Knight Commanders Cross from Germany for his work on unification; the Alexander Hamilton and Distinguished Service Awards, the highest honors of the Department of Treasury and State, respectively; the Department of Defense Medal for Distinguished Public Service; and a Doctorate of Humane Letters from St. Joseph's College in Rensselaer, Indiana.

He now serves on the Board of the International Republican Institute, a part of the National Endowment for Democracy created by the U.S. Congress. He also was appointed to the Secretary of Defense's Policy Board.

Mr. Zoellick grew up in Naperville, Illinois.

PRESS ROOM



May 31, 2007
HP-432

**Acting Under Secretary for International Affairs Clay Lowery to Speak at
China Investment Forum**

Acting Under Secretary for International Affairs Clay Lowery will make remarks to the Institutional Investors Fourth Annual China Investment Forum on Friday in New York City.

Who

Acting Under Secretary for International Affairs Clay Lowery

What

Remarks to the Institutional Investors Fourth Annual China Investment Forum

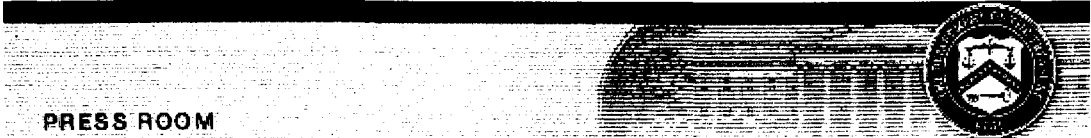
When

9:00 a.m., EDT, Friday, June 1

Where

Manhattan Ballroom
Grand Hyatt New York
109 East 42nd St. at Grand Central Station
New York, New York

Note: Acting Under Secretary Lowery will preview his remarks Thursday, May 31, to reporters at the New York Foreign Press Center. This briefing is for credentialed foreign media only. For more information contact Eric Terrell at TerrellEW@state.gov or (212) 317-8333.



PRESS ROOM

May 31, 2007
hp-433

Treasury Marks 5th Anniversary of Financial Education Office

Washington, DC - Treasury Acting Assistant Secretary for Financial Institutions David G. Nason congratulated Treasury's Office of Financial Education as the organization celebrated its fifth anniversary this month.

"Treasury's Office of Financial Education has been instrumental in helping empower more Americans to gain control of their finances," said Acting Assistant Secretary Nason. "In just five years, this office has become a world leader in financial education, demonstrating how the federal government can effectively bridge public and private sector leaders and American communities to improve financial literacy."

Treasury established the office in May 2002 to promote access to the financial education tools that can help all Americans make better informed decisions in all areas of personal financial management. Since the inception of the office, Treasury officials traveled to 44 states and held 307 financial education sessions with nearly 25,000 in attendance. The office assisted more than one thousand financial education providers and public citizens through its Technical Assistance Center and promoted exemplary financial education efforts by creating the Sherman Award for excellence in financial education, recognizing 17 local organizations across the country.

The office also coordinates the Financial Literacy and Education Commission, a group of 20 federal agencies chaired by Treasury Secretary Henry M. Paulson, Jr. Some of the commission's major accomplishments include:

Launched MyMoney.gov and 1-888-MyMoney

This Federal government website and toll-free hotline serves as a coordinated point of entry to Federal financial education materials, programs, grants and other information. Since October 2004 when established, MyMoney.gov has been visited approximately 1,800,000 times. Both resources are available in English and Spanish and serve as a one-stop shop for information about homeownership, credit management, retirement savings and many other topics.

Release of the National Strategy for Financial Literacy

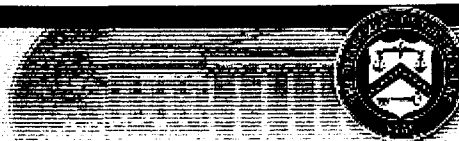
The 20-agency Commission released *Taking Ownership of the Future: The National Strategy for Financial Literacy* in April 2006. The national strategy, covering 13 areas of financial education and containing 32 calls to action, is a comprehensive blueprint for improving financial literacy in America through public-private partnerships. The national strategy can be found at MyMoney.gov

Multimedia Campaign

The Office released its first financial education television commercial last month, which can be viewed at www.mymoney.gov. Treasury and the Ad Council also are pursuing a broader English and Spanish multimedia public service announcement campaign aimed at increasing credit literacy with a projected launch this year.

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PRESS ROOM



May 31, 2007
hp434

Secretary Paulson To Speak Next Week On The U.S.-China Economic Relationship

Treasury Secretary Henry M. Paulson, Jr. will deliver remarks at the Heritage Foundation in Washington, DC next week. Secretary Paulson's remarks will focus on the U.S.-China long term economic relationship and both countries' efforts to strengthen that relationship through the U.S.-China Strategic Economic Dialogue.

The event is open to credentialed media.

Who Secretary Henry M. Paulson, Jr.

What Remarks at The Heritage Foundation

When Tuesday, June 5, 11:30 a.m. EDT

Where The Heritage Foundation
214 Massachusetts Ave., NE
Washington, DC

Note All media must RSVP to The Heritage Foundation's Media Services office at (202) 675-1761 or lester.romero@heritage.org. Cameras must pre-set by 11:00 a.m. EDT, and all other media must arrive no later than 11:15 a.m. EDT.

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PRESS ROOM



May 31, 2007
HP-436

What They're Saying: Zoellick Picked to Head World Bank

Speaker of the House, Nancy Pelosi (D-CA):

"My experience working with him on the subject of Darfur tells me that I know that he cares about that issue, which is very important to the American people," said House Speaker Nancy Pelosi, D-Calif. "He's sensitive to the need to alleviate poverty there, to resolve conflict in a peaceful way. ... I have been impressed by what he has done so far." ("Zoellick Must Restore Calm at the World Bank," *FOXNews.com*, 5/30/07)

House Republican Whip Roy Blunt (R-MO):

"Nominating him to lead the World Bank is a good decision by this President, and it's one I expect will be rightly applauded by our friends and partners around the globe," said House Republican Whip Roy Blunt, R-Mo. "No one is better prepared for this job than Bob Zoellick, and I have great confidence in the future of the Bank under his leadership." ("Bush Nominates Zoellick To Be World Bank President," *Dow Jones Newswires*, 5/30/07)

U.S. Senate Finance Committee Chairman Max Baucus (D-MT):

"It's hard to imagine a more intelligent, hard-working and capable person to assume the bank's leadership at this difficult point in its history," Baucus told Reuters. (Bush names Zoellick for World Bank," *Reuters*, 5/30/07)

Senator Charles E. Grassley (R-IA):

"He's extremely capable, and through his leadership for international trade, I know he has a real understanding of what it takes to advance economic development in poor countries," Mr. Grassley said. ("Bush to name Zoellick to lead World Bank," *The Washington Times*, 5/30/07)

Australian Treasurer Peter Costello:

"Mr Zoellick is an excellent candidate for the World Bank Presidency and will be supported by Australia." ("Nomination of Robert Zoellick for World Bank President," Treasurer of the Commonwealth of Australia - Press Release, 5/31/07)

Russian Economy Minister German Gref:

"It's not easy to negotiate with him but it's easy to make agreements with him, since he is a professional of the highest caliber and he always keeps his word." ("Zoellick Promises to Heal World Bank Rifts," *Reuters*, 5/30/07)

Japanese Vice Finance Minister Hideto Fujii:

"Mr. Zoellick is suitable as he has experience in areas such as diplomacy, trade and finance. Japan will support him," Vice Finance Minister Hideto Fujii told a news conference. ("Japan backs Zoellick as next World Bank chief: MOF's Fujii," *Kyodo News*, 5/31/07)

Brazilian Finance Minister Guido Mantega:

"He is a good choice," Mantega said. "He has good international experience and has had a pro-active stance in liberalizing world trade." ("Brazil's Mantega Lauds Zoellick Nomination As World Bank President," *Dow Jones Newswires*, 5/31/07)

Spokeswoman for South African Finance Minister Trevor Manuel:

"We consider Zoellick to be very competent and hope he will be able to operate in the same manner as he demonstrated in the World Trade Organisation negotiations

when he served as the US trade representative, and where he sought to build consensus in a constructive and professional manner," said Thoraya Pandy spokeswoman for Finance Minister Trevor Manuel. ("Manuel Lauds Zoellick As Bank Nominee," *Business Day-Johannesburg*, 5/31/07)

French Foreign Minister Bernard Kouchner:

"Mr. Zoellick is certainly the right man for the job." ("Bush proposes Zoellick to head divided World Bank, *Agence France Presse*, 5/30/07)

Singapore Minister for Foreign Affairs George Yeo:

"Zoellick is an excellent choice.... I've also been impressed by his concerns of the needs of the developing world," (Ministry of Foreign Affairs, Singapore, 5/30/07)

Bahrain Central Bank Governor Rashid al-Maraj:

"I can tell he's a capable man," Rashid al-Maraj, Bahrain's central bank governor, told Zawya Dow Jones in a phone interview. "He's got a reputable personality and has patience to solve all problems." ("Arab bank heads cautiously welcome Zoellick," *Gulf Times- Qatar*, 5/31/07)

Peruvian Foreign Trade Minister Mercedes Araoz:

"My impression is that it's a good choice President Bush is making," Peruvian Foreign Trade Minister Mercedes Araoz told The Associated Press. "He was a driving force of the U.S. trade agenda in seeking association with developing countries, among them Peru." ("Zoellick to Be Nominated to World Bank," *Associated Press Newswires*, 5/30/07)

German Development Minister Heidemarie Wiecezrek-Zeul:

Germany's Development Minister Heidemarie Wiecezrek-Zeul called Zoellick a "good candidate, who brings a large measure of international experience with him." "It's important that the World Bank quickly gets a new president and wins back its ability to act," she said. ("Zoellick Welcomed as Likely World Bank chief," *Reuters*, 5/31/07)

Pascal Lamy, head of the World Trade Organization:

"I have known Bob Zoellick for over two decades," said Pascal Lamy, head of the World Trade Organization. "I have always appreciated his skills as a consensus builder and his capacity to reach out to developing countries." ("Ex-Trade Envoy is Bush's Choice for World Bank," *The New York Times*, 5/30/07)

OECD Secretary-General Angel Gurría:

"His leadership and extensive experience in dealing with international organizations, as well as his clear understanding of the complexities of development issues, make him an excellent choice for this post," Angel Gurría, Secretary-General of the Organization of Economic Cooperation and Development, said in a statement. ("Zoellick Says Unity, Healing are Goals; World Bank Nominee Finds Global Support," *USA Today*, 5/31/07)

Nancy Birdsall, President of the Center for Global Development:

"Nancy Birdsall, president of the Center for Global Development, an antipoverty group in Washington, said Mr. Zoellick's skills as a negotiator and diplomat will serve him well... 'There is a job to do, of calming and healing,' said Ms. Birdsall, describing Mr. Zoellick as a pragmatist... 'He wants to get to yes right away.'" ("Zoellick's World Bank Bid Garner Support," *The Wall Street Journal*, 5/31/07)

Bear Stearns Chief Economist David Malpass:

"Bob is an expert at creating influential networks of people," says Bear Stearns chief economist David Malpass, who first crossed paths with Zoellick when they worked in the Reagan administration. ("Ex-U.S. trade official to head World Bank," *USA Today*, 5/30/07)

American Enterprise Institute Resident Scholar Philip Levy:

"Zoellick is well-qualified. He is a top competitor in 'brightest guy in the room'

contests. He has been an undersecretary and a deputy secretary of State and served with great distinction as the United States Trade Representative (USTR)." ("Banking on Zoellick," *American.com*, 5/30/07)

Former Secretary of State James Baker:

"Zoellick is a man who gets things done," said former Secretary of State James Baker, who brought him into the Reagan administration in 1985. ("Zoellick May Prove Wolfowitz Antidote at World Bank," *Bloomberg News*, 5/30/07)

Former Ambassador to the European Union and Deputy Treasury Secretary Stuart Eizenstat:

"It's really a brilliant appointment," said Stuart Eizenstat, a former Treasury Department official during the Clinton administration. (Zoellick Nominated to Head the World Bank, *The Hill*, 5/30/07)

The Wall Street Journal:

"Having published at least a dozen of Robert Zoellick's op-eds over the years we know him as a man who never minces his words nor takes easily to editing. If that's an indication of the management style he'll bring to the World Bank, then president Bush has nominated a fine successor to outgoing bank president Paul Wolfowitz... As a former trade representative and deputy secretary of state, Mr. Zoellick understands modern markets and knows his way around multilateral institutions." (Editorial, "Zoellick's Clean-Up Duty," *The Wall Street Journal*, 5/31/07)

The Washington Post:

"He is a good choice to lead the bank." (Editorial, "A World Bank Choice; Robert Zoellick is Well Qualified to Take Over a Troubled Institution," *The Washington Post*, 5/31/07)

The New York Times:

"Mr. Zoellick cannot get to work soon enough." (Editorial, "A Clean Start at the World Bank," *The New York Times*, 5/31/07)

Financial Times:

"The bank desperately needs a credible and effective leader. The new boss must heal the wounds that have opened up both between management and staff and within the board. He needs to provide a sense of direction, clear leadership and effective management. He needs, not least, to adapt an institution now 61 years old to the entirely different conditions of today. How does Mr Zoellick match up to these requirements? Well, is the answer." (Editorial, "Zoellick at the World Bank," *Financial Times*, 5/31/07)



PRESS ROOM

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May 31, 2007
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Report On Foreign Holdings of U.S. Securities At End-June 2006

The final results from the annual survey of foreign portfolio holdings of U.S. securities at end-June 2006 are released today and posted on the U.S. Treasury web site at (<http://www.treas.gov/tic/fpis.html>).

The survey was undertaken jointly by the U.S. Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System. Surveys are carried out annually, and the next survey will be for end-June 2007.

Complementary surveys measuring U.S. portfolio holdings of foreign securities are also carried out annually. Data from the most recent survey, which reports on foreign securities held by U.S. residents at year-end 2006, are currently being processed. Preliminary results are expected to be reported by September 30, 2007.

Overall Results

The survey measured foreign holdings as of June 30, 2006, of \$7,778 billion; with \$2,430 billion held in U.S. equities, \$4,733 billion in U.S. long-term debt securities (of which \$980 billion were holdings of asset-backed securities (ABS)), and \$615 billion in U.S. short-term debt securities. The previous such survey, conducted as of June 30, 2005, measured foreign holdings of \$6,864 billion; with \$2,144 billion in U.S. equities, \$4,118 billion in U.S. long-term debt securities (of which \$717 billion were holdings of asset-backed securities (ABS)), and \$602 billion in U.S. short-term debt securities.

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	7,162
Equity	2,144	2,430
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	7,778
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 debt
				ABS	Other	
1	Japan	1,106	195	121	706	85
2	China, mainland ¹	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-exporters ²	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	637	178	58	299	102
	Total	7,778	2,430	980	3,753	615
	Of which: Official	2,301	215	147	1,635	304

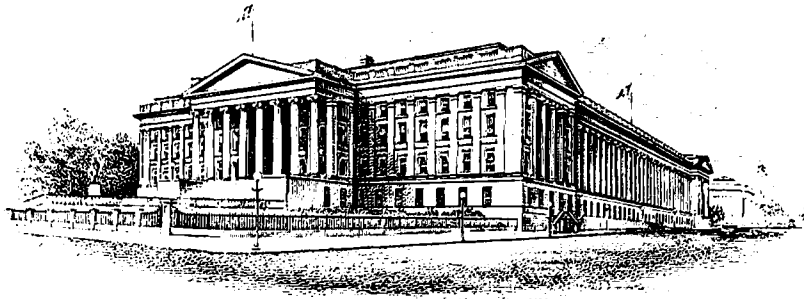
* Greater than zero but less than \$500 million.

1. Excludes Hong Kong and Macau, which are reported separately.
2. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Figures for 2006 reflect market prices at end-June 2006. Long-term securities have an original term-to-maturity of over one year. 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.

REPORTS

- (PDF) Report On Foreign Holdings of U.S. Securities At End-June 2006



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 4 P.M. (EDT) MAY 31, 2007
CONTACT Ann Marie Hauser, (202) 622-2960

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