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Department of the Treasury

PRESS RELEASES

Numbers not used: HP-780-781, 798, and 844

January 2, 2008
hp-753

Treasury Welcomes Entry into Force of Three Protocols, New Tax Treaty

Washington, DC--The Treasury Department announced today that three protocols and one new tax treaty and protocol have entered into force.

Protocols amending existing tax treaties with Germany, Denmark and Finland, along with a new income tax treaty and protocol with Belgium entered into force December 28, 2007 upon exchanges in Washington, DC of required notifications and instruments of ratification. All generally apply to tax years beginning on or after January 1, 2008. Certain provisions of the protocols with both Germany and Finland are effective, however, on or after January 1, 2007.

Provisions of the protocol with Germany include:

- Elimination of source-country withholding taxes on certain dividends;
- Modernization of the treaty's limitation of benefits provision; and
- Mandatory arbitration of certain cases that cannot be resolved by the competent authorities within a specified period.

Provisions of the protocol with Denmark include:

- Elimination of source-country withholding taxes on certain dividends; and
- Modernization of the treaty's limitation of benefits provisions.

Provisions of the protocol with Finland include:

- Elimination of source-country withholding taxes on certain dividends;
- Elimination of source-country withholding taxes on royalty payments; and
- Modernization of the treaty's limitation of benefits provision.

Provisions of the new treaty and protocol with Belgium include:

- Elimination of source-country withholding taxes on interest payments;
- Elimination of source-country withholding taxes on certain dividends;
- Improved exchange of information between the United States and Belgium;
- Modernization of the treaty's limitation of benefits provision; and
- Mandatory arbitration of certain cases that cannot be resolved by the competent authorities within a specified period.

The protocol with Germany was signed in Berlin on June 1, 2006; the protocol with Denmark in Copenhagen on May 2, 2006; the protocol with Finland in Helsinki on May 31, 2006; and the treaty and protocol with Belgium in Brussels on November 27, 2006. The Senate approved the protocols with Denmark and with Finland on November 16, 2007, and the protocol with Germany and new treaty and protocol with Belgium on December 14, 2007.

-30-

January 4, 2008
hp-754

Treasury Secretary Paulson to Deliver Speech on Capital Markets and Economy

Washington, D.C. -- Treasury Secretary Henry M. Paulson, Jr. will deliver a speech on Monday in New York City at an event hosted by the New York Society of Security Analysts. He will discuss the recent developments in the capital markets and their impact on the economy.

- **What** Speech on Capital Markets and the Economy
- **When** 2:00 p.m. (EST) Monday, January 7
- **Where** Westin Hotel 270 West 43rd, New York, N.Y.
- **Note** Media interested in attending should RSVP to press@nyssa.org.

-30-

January 3, 2008
hp-755

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 the media:

Who U. S. Treasury Assistant Secretary Phillip Swagel

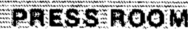
What Economic Media Briefing

When Friday, January 4, 2008, 11:00 a.m. EST

Where Treasury Department
Media Room (Room 4121)
1500 Pennsylvania Ave, NW
Washington, DC

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

-30-



January 4, 2008
hp-756

Treasury Economic Update 1.4.08

"Today's employment report reflects the impacts of the challenges facing the U.S. economy, including the housing downturn and the credit disruption. At the same time, the U.S. economy remains resilient, and we expect growth to continue."

Assistant Secretary Phillip Swagel, January 4, 2007

Job Creation Has Slowed:

Job Growth: 18,000 new jobs were created in December, the 52nd straight month of job gains. The United States has added 1.3 million jobs in the past 12 months and about 8 and a half million jobs since August 2003. Employment increased in 48 states and the District of Columbia over the year ending in November. *(Last updated: January 4, 2008)*

Low Unemployment: The unemployment rate rose to 5.0 percent in December from 4.7 percent in November. Unemployment rates have declined in 23 states and the District of Columbia over the year ending in November. *(Last updated: January 4, 2008)*

There Are Still Many Signs of Economic Strength:

Economic Growth: Real GDP growth was 4.9 percent in the third quarter of 2007, supported by strong gains in business investment and exports. *(Last updated: December 20, 2007)*

Business Investment: Business spending on commercial structures and equipment rose solidly in the third quarter. Healthy corporate balance sheets bode well for continued investment growth. *(Last updated: December 20,2007)*

Exports: Strong global growth is boosting U.S. exports, which grew by 10.3 percent over the past 4 quarters. *(Last updated: December 20, 2007)*

Inflation: Core inflation remains contained. The consumer price index excluding food and energy rose 2.3 percent over the 12 months ending in October. *(Last updated: December 14, 2007)*

Tax Revenues: Tax receipts rose 6.7 percent in fiscal year 2007 (FY07) on top of FY06's 11.8 percent increase. As a share of GDP, FY07 receipts exceeded their 40-year average. *(Last updated: October 12, 2007)*

Americans Are Keeping More of Their Hard-Earned Money:

Real after-tax income per person increased 2.1 percent over the past 12 months (ending in November). *(Last updated: December 21, 2007)*

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

We are on track to make significant further progress on the deficit. The FY07 budget deficit was down to 1.2 percent of GDP, from 1.9 percent in FY06. Much of the improvement in the deficit reflects strong revenue growth, which in turn reflects the continued strength of the U.S. economy. Looking ahead, higher spending on

entitlement programs dominates the future fiscal situation; we must squarely face up to the challenge of reforming these programs.

www.treas.gov/economic-plan

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Printer Friendly Version of the U.S. Economic Strength

The U.S. economy is strong and getting stronger. Since the President signed the Jobs & Growth Act in May 2003, providing much needed tax relief, the U.S. economy has made a remarkable recovery. This Administration will continue pursuing pro-growth policies that will sustain economic growth for future generations.

LATEST NEWS

Asst Sec Swagel to Hold Monthly Economic Briefing

FOCUS ON

Economic Growth Package

- Secretary Paulson: Ask the White House
- Fact Sheet: Examples of How the Economic Growth Package will Benefit Americans
- Paulson Press Briefing on the Bipartisan Economic Growth Agreement
- White House Fact Sheet: New Growth Package Meets Criteria to Keep Our Economy Healthy
- Bush Statement on Economic Growth Agreement
- Paulson Remarks on the Economy
- Paulson Takes Questions at the White House
- Paulson Remarks at White House Press Briefing
- White House Fact Sheet: Taking Action to Keep Our Economy Healthy
- Transcript: President's Remarks

Treasury Releases Social Security Papers

To build on the discussions that Secretary Paulson has had with members of Congress in both parties, Treasury will release a series of issue briefs that will discuss Social Security reform, focusing on the nature of the problem and those aspects of reform that have broad support.

- Paulson Statement on Treasury Social Security Papers on Common Ground
- **Issue Brief 1**: Social Security Reform: The Nature of the Problem
- **Issue Brief 2** : Social Security Reform: A Framework for Analysis
- **Issue Brief 3** : Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy

U.S. Economic Strength

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"Today's employment report refle impacts of the challenges facing U.S. economy, including the hou downturn and the credit disruptic the same time, the U.S. econom remains resilient, and we expect to continue."
- Assistant Secretary Phillip Swa
January 4, 2008

MORE INFORMATION

- Economic Report of the Presi
- The White House Economy a Budget
- Bureau of Economic Analysis
- Bureau of Labor Statistics
- The Federal Reserve
- Economic Data Tables

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- Treasury's Office of Economi Policy

Job Creation Continues:
Job Growth: 18,000 new jobs were created in December, the 52nd straight month of job gains. The United States has added 1.3 million jobs in the past 12 months and about 8 and a half million jobs since August 2003. Employment increased in 47 states and the District of Columbia over the year ending in November. *(Last updated: January 18, 2008)*

Low Unemployment: The unemployment rate rose to 5.0 percent in December from 4.7 percent in November. Unemployment rates have declined in 12 states and the District of Columbia over the year ending in November. *(Last updated: January 18, 2008)*

There Are Many Signs of Economic Strength:
Economic Growth: Real GDP growth was 4.9 percent in the third quarter of 2007, supported by strong gains in business investment and exports. *(Last updated: December 20, 2007)*

Business Investment: Business spending on commercial structures and equipment rose solidly in the third quarter. Healthy corporate balance sheets bode well for continued investment growth. *(Last updated: December 20,2007)*

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We are on track to make significant further progress on the deficit. The FY07 budget deficit was down to 1.2 percent of GDP, from 1.9 percent in FY06. Much of the improvement in the deficit reflects strong revenue growth, which in turn reflects the continued strength of the U.S. economy. Looking ahead, higher spending on entitlement programs dominates the future fiscal situation; we must squarely face up to the challenge of reforming these programs.

Last Updated: January 31, 2008

January 7, 2008
HP-757

**Remarks by Treasury Secretary Henry M. Paulson, Jr.
on Housing and Capital Markets
before the New York Society of Securities Analysts**

New York City, NY-- Good afternoon. I will provide an update on the U.S. housing and capital markets and, at the beginning of this new year, an outlook for the U.S. economy.

As I have said for some time, the housing and credit disruptions have slowed our economic growth, and the housing downturn remains the greatest risk to our economy. Yet, the U.S. economy remains diverse and resilient, even as it works through these current challenges.

Foreclosure Prevention Efforts

After years of unsustainable price appreciation and lax lending practices, a housing correction was inevitable and necessary. That correction is underway. Over the next two years, we also face an unprecedented wave of 1.8 million subprime mortgage resets, raising the potential of a market failure. Because the industry does not have the capacity to manage this volume, without action, unnecessary foreclosures would result.

To meet this challenge, this Administration – without committing any taxpayer money – helped foster an industry-wide effort to prevent this market failure. By preventing avoidable foreclosures, we will safeguard neighborhoods and communities, and fulfill our primary responsibility of protecting the broader U.S. economy. However, let me be clear: there is no single or simple solution that will undo the excesses of the last few years.

As part of our efforts, last fall we began working with mortgage market participants through the HOPE NOW alliance to implement a three-point plan to avoid preventable foreclosures. This Administration and Congress have provided significant funding for mortgage counseling, which will help organizations such as NeighborWorks America and others to assist homeowners.

The elements of the plan are straightforward. First, the alliance is aggressively reaching out to homeowners who are or will be struggling with their mortgages.

Second, industry and government are developing new mortgage products that will enable more people to stay in their homes.

Third, the industry has developed a systematic streamlining process that replicates normal market actions to fast-track borrowers towards a solution, when possible. The industry needs this streamlining to manage the unprecedented volume of resets that cannot be addressed through individual, loan-by-loan negotiations.

This third part of the plan has received the most attention; it has also received the most criticism due to the mistaken perception that it abrogates contracts. It does not. Mortgage servicers have contractual obligations to their investors, who are spread all over the world. Servicers will fulfill these contractual obligations by pursuing all loss-mitigation options when it is in the best interest of investors, as they normally would. Investors are part of this industry-wide solution because they recognize the benefits of avoiding preventable foreclosures.

Implementation Update

Now is an opportune time to provide a progress report on implementation efforts for this plan.

To meet the need for new mortgage products, HUD has implemented FHASecure, under which more borrowers can refinance into FHA mortgages. I congratulate Congress for passing the temporary mortgage-debt tax relief bill, which President Bush has signed into law, to help homeowners who have lost their homes from facing another financial setback due to the tax code.

The HOPE NOW alliance has grown. It represents over 90 percent of the subprime servicing market, including the top 20 subprime servicers, as well as major non-profit mortgage counseling organizations, trade associations and investors.

This multilayered approach is both a strength and a challenge. Entire industries do not adjust easily or quickly, even in times of market calm. Individual companies especially face resource and other limitations during times of turmoil. The alliance is making progress, but implementation will not be easy, and will require sustained effort over time.

The first step has been to contact troubled borrowers. In its first two months, the HOPE NOW alliance sent over 450,000 letters to at-risk borrowers who had not previously contacted their servicers. Servicers estimate that, as a result of this effort, approximately 10 percent, or 45,000 homeowners, have called their servicers to see if foreclosure can be avoided.

Servicers are also moving to quickly implement the framework for streamlined refinancings and modifications announced by the American Securitization Forum (ASF) – which represents mortgage market participants, including many of the largest investors. This is not simple; there are legal, accounting and operational considerations. Servicing departments need to link with mortgage originators; this can be difficult for independent servicers. And they must fully implement connections to FHA. Servicers are collaborating to share best practices so all borrowers and investors may benefit from the ASF framework, regardless of who their servicer happens to be.

Last Friday over 20 HOPE NOW alliance servicers gathered to work through implementation details, and will continue an intense pace in order to establish the necessary infrastructure and processes. We expect most servicers to begin fast-tracking borrowers in the next few weeks.

We are monitoring results on all aspects of the plan, to ensure participants are fulfilling their commitments and that homeowners are being contacted and, when possible, helped. The industry is developing definitive progress reports based on standard definitions, standardized metrics and a central monitoring and reporting system. In my judgment, accurately measuring and reporting progress is absolutely essential and time is of the essence. I will continue to press the industry to move quickly to fully implement this program and to announce metrics that fully evaluate their progress.

Fast-tracking will move some troubled homeowners quickly into refinancings and interest rate freezes, which will free up time for servicers to focus on the more difficult cases.

Final success of this plan will be measured by the number of avoidable foreclosures that are prevented, not by the number of refinancings or modifications with an interest rate freeze.

Major challenges still lay ahead. The volume of subprime mortgage resets will increase substantially in 2008, and most of these mortgages were originated in 2006 under the most lax underwriting standards.

We need to see all servicers reporting results to HOPE NOW to measure effectiveness and then make adjustments as needed. This may include using elements of a systematic approach for adjustable-rate mortgages other than subprime if it will benefit homeowners and investors.

Mortgage Credit Market Update

Unsustainable home price appreciation in the past few years caused a large supply response, and it will take time for demand to catch-up. Housing starts have fallen by nearly half since their peak in early 2006, and new home sales are down just as sharply. House prices are falling in many parts of the country, and elevated housing inventories suggest that the price adjustment is not yet complete.

In this environment, buyers will be reluctant to commit to new purchases. Moreover, until investors have confidence that prices have stabilized, they will remain cautious about funding new mortgages. This is particularly true for new subprime mortgages, which are not currently being securitized by Fannie Mae or Freddie Mac, and for jumbo mortgages which do not qualify for Government Sponsored Enterprise (GSE) securitization. In these markets, securitization volume has fallen off significantly.

The reduced availability of non-conforming mortgages clearly has impacted the ability of some to buy or refinance a home. I heard this concern repeatedly as I traveled throughout the country last month. We have urged Congress to move quickly to address this issue by passing the FHA modernization bill to provide financing for approximately 250,000 borrowers and, as part of GSE reform legislation, to temporarily raise the loan limit to allow the GSEs to securitize jumbo mortgages.

Just as the HOPE NOW alliance, by preventing some foreclosures, will reduce the supply of homes to be sold, addressing stress in the non-agency mortgage market could increase the demand for homes by reducing mortgage financing costs and increasing financing availability. Therefore, it is important that Congress act quickly.

Fortunately, creditworthy borrowers looking for a conforming mortgage will find that Fannie Mae and Freddie Mac have remained active, and traditional conforming mortgage products are readily available. Fannie and Freddie's securitization volumes have risen dramatically since June of 2007, even as other mortgage markets slowed. However, they are also experiencing stress due to the housing downturn and both companies reported substantial third quarter losses. I am pleased that Fannie and Freddie have moved quickly to raise capital and, through their securitization activities, remain a positive force for home finance.

Another housing-related GSE, the Federal Home Loan Bank (FHLB) System, has provided a considerable amount of liquidity to financial institutions. In the third quarter alone, the twelve Federal Home Loan Banks provided an additional $184 billion to borrowers within the system, funding that enables banks and thrifts to continue to lend.

Capital Markets Update

Benign U.S. and global economic conditions, significant global imbalances, large international capital flows, lax lending standards and investors' aggressive appetite for yield extended beyond the U.S. housing market and have impacted our capital markets more broadly.

For the last five months, markets have been comprehensively reassessing risk, resulting in the re-pricing of securities across a number of asset classes and sectors. This is appropriate and a healthy return to fundamentals. Given the global nature of our markets and the complexity of the instruments involved, it will take additional time to work through this period of stress and volatility.

As markets reassess, we should not be surprised or disappointed to see financial institutions writing down assets and strengthening balance sheets. This is market discipline in action and should enhance market confidence over time. One thing I have learned over my career is that if a financial institution needs capital, it should move quickly to raise it. Moving to strengthen balance sheets better prepares financial institutions to exploit new opportunities and confront inevitable challenges.

As Treasury Secretary, I continue to firmly believe in the value of this approach; it is a positive for financial institutions, capital markets and our economy. Our financial institutions entered this period well-capitalized, and we expect them to remain so. There is a choice to be made here. Institutions that shrink balance sheets and

curtail financing activities could make it more difficult for businesses and consumers to continue to finance growth. Alternatively, institutions that strengthen balance sheets can continue to play their vital role in financing businesses and individuals – thus minimizing the impact of market turmoil on the real economy.

We have seen positive developments in this regard. During the second half of 2007, financial institutions raised $83 billion of equity, a more than 20 percent increase from the same period in 2006. Some may be concerned that much of this financing came from overseas investors; I am not. When the world invests in the United States, it is the ultimate vote of long-term confidence in our economy and our companies.

Our capital markets remain resilient and continue to show progress towards stability. Equity markets are functioning well and finished up for the year, across a broad range of indices. The Treasury market is operating well with elevated volumes at much lower yields than the first half of 2007. Our high grade debt market is performing satisfactorily and issuance has been solid with spreads in line with the last five years' historical averages. Our high yield market is impaired but operational. High yield issuance volume is down significantly and spreads are wider, but still within levels experienced just four years ago.

We did not expect markets to improve in a straight line as we worked through this volatility. And, not surprisingly, late in the year we saw a resurgence of risk aversion and impaired liquidity. This was felt most acutely in the inter-bank financing markets.

In response, central banks took a multitude of actions to facilitate liquidity, including currency swaps between central banks and the successful introduction of the auction of funds via the Term Auction Facility, extending liquidity injections over year-end. The short term inter-bank markets have shown signs of improvement as these coordinated actions are having their desired effect; the spread between LIBOR and fed funds futures has shrunk significantly.

Additionally, there has been progress in the asset-backed commercial paper (ABCP) market. ABCP markets are important vehicles for financing economic activity and enhancing liquidity in the broader capital markets. It is encouraging that many bank-sponsored structured investment vehicles (SIVs) have been moved on balance sheet and de-levered.

Non-bank-owned SIVs have sold assets, allowed assets to mature without reinvesting, secured other liquidity sources or restructured. Thus, outstanding SIV assets have been steadily reduced from a $400 billion summer peak to less than $150 billion as of early December. Although this orderly unwind of SIVs is a positive development, challenges remain in the ABCP market.

Markets will benefit from continued short-term credit market improvements in ABCP and other structured products. For this reason, the Treasury Department has focused on this market for many months. In December, I was pleased that several institutions announced a mechanism to provide additional liquidity and price discovery for the ABCP market if participants decide it is necessary.

Throughout this period of readjustment, Treasury's primary focus has been to facilitate improvement in the financial markets in an attempt to minimize spillover effects to the real economy.

I have great confidence in our markets. They have weathered similar stressful periods in the past – whether it was the Savings & Loan crisis, Latin American and Asian market turbulence or the tech bubble of the late 1990s. The private and public sectors responded and worked through these difficult periods. Markets recovered then, and they will again.

Concurrently, we are also seeking to better understand the causes of current credit market turmoil. We are still learning but we recognize some clear lessons already. We know that contributing factors included an abundant supply of easy credit, and a decline in lending standards in mortgage origination and other areas. Complex and opaque financial instruments and structures, such as the use of conduits and SIVs contributed, as did investor practices and rating agency issues.

Through the President's Working Group on Financial Markets, we are evaluating a number of the policy issues, including securitization – particularly accounting, valuation and investor practices – credit rating agencies, risk management and Over-the-Counter (OTC) market infrastructure.

Our most immediate goal is to minimize the impact on the real economy. At the same time, we recognize the importance of addressing these policy issues, and we are. This will require patience as we thoughtfully evaluate next steps. Working through the current situation and getting the policy right is more important than getting the policy announced quickly.

U.S. Economy

Looking across the entire economic landscape, the housing downturn and credit disruption will, as I have said for some time, weigh on our economy and impose a penalty on our economic growth. We saw effects of this in last Friday's report of slower job growth and higher unemployment in December. It will take additional time for markets to regain confidence. We will likely have further indications of slower growth in the weeks and months ahead. The overhang of unsold houses will contribute to a prolonged adjustment, and poses by far the biggest downside risk.

At the same time, despite the housing downturn, credit market disruption and higher energy prices, we experienced nearly 5 percent GDP growth in the third quarter of last year. Consumer and business spending remained solid through the fall, and a strong global economy is boosting U.S. exports. Moreover, core inflation remains contained and historically high tax receipts have reduced the federal deficit. While growth looks to have slowed considerably in the last part of 2007, our economy remains resilient and I expect it to continue to grow.

Again, let me be clear that no single policy or action will undo the excesses of the last few years. President Bush and his Administration recognize the risks we face, and the primary importance of keeping the economy as strong as possible as we weather this housing correction.

We will remain vigilant and I look forward to providing timely updates as we move through this period. Thank you.

January 9, 2008
2008-1-9-10-1-45-20164

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $70,684 million as of the end of that week, compared to $69,665 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	December 28, 2007		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			70,684
(a) Securities	14,466	11,320	25,786
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	14,446	5,561	20,007
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	4,384		
(3) SDRs	9,466		
(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				
(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)	70,684
--currencies in SDR basket	70,684
--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.

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.

January 9, 2008
2008-1-9-9-57-21-20082

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $69,665 million as of the end of that week, compared to $69,955 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	December 21, 2007		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			69,665
(a) Securities	14,102	11,215	25,317
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	14,084	5,511	19,595
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	4,340		
(3) SDRs	9,372		
(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				
(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)	69,665
--currencies in SDR basket	69,665
--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.

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.

January 9, 2008
2008-1-9-10-6-58-20217

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,492 million as of the end of that week, compared to $70,684 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	January 4, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,492
(a) Securities	14,596	11,801	26,397
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	14,523	5,795	20,318
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	4,249		
(3) SDRs	9,487		
(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				
(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)	71,492
--currencies in SDR basket	71,492
--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.

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

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

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January 9, 2008
hp-758

Issue Brief No. 3: Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy

Washington, DC – Treasury today released the third in a series of papers on Social Security. Issue Brief No. 3 is entitled Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy.

REPORTS

- Issue Brief No. 3: Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy

ISSUE BRIEF NO. 3

SOCIAL SECURITY REFORM: BENCHMARKS FOR ASSESSING FAIRNESS AND BENEFIT ADEQUACY

INTRODUCTION

This is the third in a series of issue briefs that the Treasury will release on Social Security reform. This brief focuses on ways to assess the fairness of reforms and the adequacy of benefits in a financially sustainable Social Security system.[1] The appropriate level of benefits, degree of progressivity, and distribution across generations of the financial burden associated with achieving a solvent system inherently involve value judgments that must be made in deciding how to reform Social Security. This issue brief provides a practical illustration of how to assess the implications of a potential reform plan along these important dimensions.

The first brief explained that achieving a financially sustainable Social Security system requires that the birth cohorts who will bear the financial consequences of reform must receive benefits whose present value is lower than the present value of the Social Security taxes they pay by more than $13.6 trillion. (This is the result of earlier birth cohorts having received or been promised benefits that exceed their lifetime contributions by this same amount.) That brief also noted that reform can be fairer to future generations the sooner that it is initiated because the burden of reform will be spread over more people than in the case where reform is delayed. Generational fairness therefore provides an important reason to reform Social Security sooner rather than later.

The second brief introduced a framework for designing and evaluating reform plans that identifies reform options and weighs them with respect to the goals of allocating the burden of Social Security reform fairly and ensuring that total retirement resources inclusive of Social Security benefits will allow individuals to maintain a decent standard of living in retirement. While the second brief offered metrics to help assess fairness and benefit adequacy, it did not opine on what is fair or what represents an adequate level of benefits. As these are value-laden questions, reasonable people may disagree on their answers. Nevertheless, to provide concrete demonstrations of how this framework can be used to design and evaluate Social Security reform plans, this issue brief proposes specific benchmarks for assessing fairness and benefit adequacy. These benchmarks can be interpreted either as targets or simply as reference points to help formulate a target. And importantly, alternative benchmarks or targets can be developed and compared to those presented here.

The framework described in Treasury's second issue brief yields a three-step decision hierarchy for Social Security reform.

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1 As in earlier briefs, the current brief focuses on potential reforms to the retirement income portion of Social Security, not the disability insurance portion. Hence, the benefit and tax calculations that follow do not include disability benefits and taxes, nor do they include the taxes that are paid on Social Security benefits.

Decision 1. Decide how the burden of the changes required to close Social Security's $13.6 trillion financing gap should be distributed across generations.

Decision 2. For a given allocation across birth cohorts, decide how the burden should be distributed across income groups within each birth cohort.

Decision 3. Decide how large the *level* of benefits (and hence taxes) should be.

After these decisions have been made, a set of reforms can be developed that are consistent with them.

As discussed in Treasury's second issue brief, a critical question is whether contributions to Social Security in excess of benefits paid (attempted pre-funding) are truly set aside to help pay future benefits (in which case *true* pre-funding results). If attempted pre-funding does not result in true pre-funding, then the advantage to future generations from running a Social Security surplus today would be offset by a fiscal policy outside of Social Security that is less fair to future generations. This brief assumes that such attempted pre-funding is in fact real. While there is considerable reason to believe that the current Social Security surplus does not represent true pre-funding, future reforms could usefully include mechanisms aimed at ensuring that true pre-funding occurs. Treasury's fourth issue brief investigates this topic.

The remainder of this third issue brief discusses these three decisions in sequence, offering benchmarks either to help decide the question or to help assess the choices made by a particular reform plan.

DECISION 1: DECIDE HOW SOCIAL SECURITY'S ABSOLUTE BURDEN SHOULD BE ALLOCATED ACROSS BIRTH COHORTS SUBJECT TO REFORM

Treasury's first issue brief demonstrated that Social Security must impose a large burden on birth cohorts that will be subject to reform, cohorts that this brief refers to as the "reform cohorts." Relative to current-law scheduled benefits and taxes, the reform cohorts must experience some combination of cuts to scheduled benefits and tax increases that are currently estimated to equal $13.6 trillion in present value (alternatively, 3.5 percent of future taxable payrolls). This, in addition to the fact that Social Security's current-law scheduled benefits and taxes imply that the reform cohorts are already paying more into the system than they will receive in benefits means that Social Security will impose an absolute burden on reform cohorts that exceeds $13.6 trillion.

Importantly, reform cohorts are certain to either receive lower benefits or pay higher taxes than under current law *even if no reforms are made*. As pointed out in Treasury's first issue brief, current law mandates that benefits be scaled back to a level that is consistent with then-current payroll tax income when the trust fund is exhausted. Moreover, even if the program were reformed so as to draw on general revenues, those revenues would derive primarily from taxes paid by the reform cohorts. In short, there is no way to avoid the conclusion that the Social Security program will impose a significant burden on the reform cohorts.

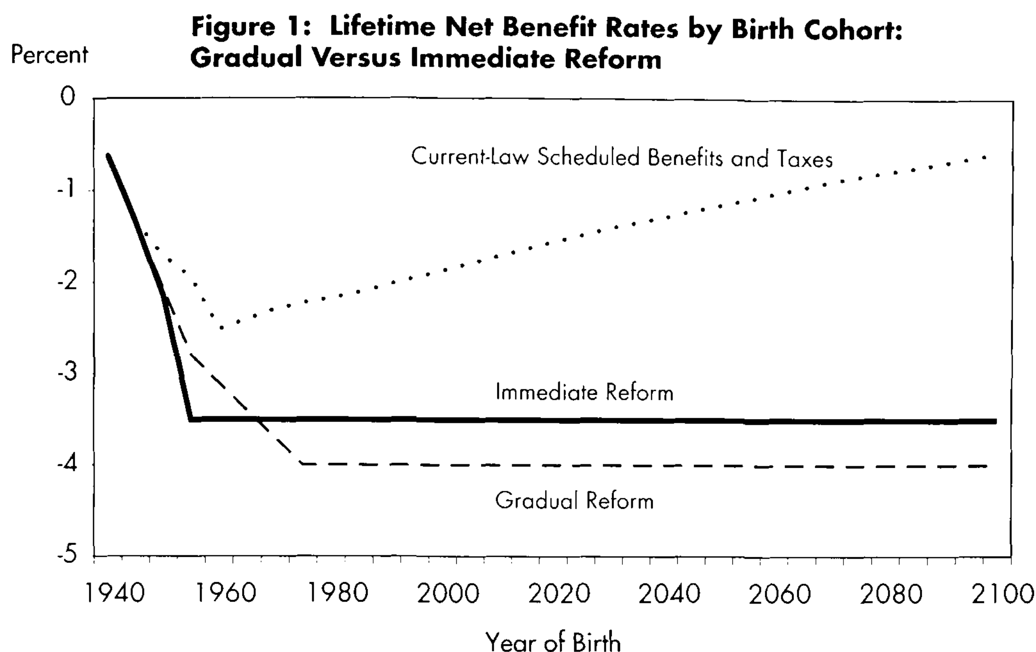
A Social Security reform might be partial in the sense that it explicitly allocates only a portion of the $13.6 trillion in benefit and tax adjustments that must ultimately be imposed. For example, a reform might be enacted that makes Social Security solvent for 75 years but not beyond. Such a reform is virtually certain to be followed up later with additional measures that close the remaining financing gap through further benefit cuts and/or tax increases. As it can be difficult to assess the fairness of a partial reform without knowing the particulars of the reforms that will follow, this brief focuses on complete reforms that close the entire $13.6 trillion financing gap.

To help assess the fairness with which a full reform allocates the reduced benefits and higher taxes (the increase in "net taxes") between and within reform cohorts, Treasury's second issue brief introduced the concept of the *lifetime net benefit rate*. For an individual, the lifetime net benefit rate is defined as the present value of net lifetime Social Security benefits (benefits less taxes) as a percentage of the present value of the individual's lifetime wages. The lifetime net benefit rate for a birth cohort is the same as that for an individual except that the numerator (net Social Security benefits) and the denominator (lifetime wages) are sums computed over all members of the birth cohort.

Because reform cohorts must pay a net tax exceeding $13.6 trillion, lifetime net benefit rates must be negative on average for reform cohorts—that is, reform cohorts must on average receive benefits whose present value is less than the present value of the taxes they pay into the system. A negative lifetime net benefit rate in most contexts will be referred to as a "lifetime net tax rate." For example, a *negative* 3 percent lifetime net benefit rate is the same as a *positive* 3 percent lifetime net tax rate.

One candidate for a fair allocation of Social Security's net taxes across reform cohorts is a reform that imposes the same net tax rate on *all* reform cohorts; such a reform might be viewed as sharing the burden of lower benefits and/or higher taxes equally across generations. For example, suppose the reform cohorts are those born in 1953 and later (that is, those aged 55 or younger in 2008), and that a net tax rate of 3.5 percent on those cohorts is just sufficient to yield $13.6 trillion in lower benefits and/or higher revenues. (This is merely an illustration; in practice, the Congressional Budget Office and/or Social Security Administration could estimate net benefit rate profiles that would result in permanent solvency.) The lifetime net benefit profile in this case is labeled "Immediate Reform" in Figure 1. Also included in the figure is the lifetime net benefit profile under current-law scheduled benefits and taxes (as well as a third profile showing net benefits under a gradual reform that will be discussed later). It is important to keep in mind that current-law scheduled benefits and taxes cannot actually come to pass; indeed, current projections indicate that only about 75 percent of scheduled benefits would be paid starting in 2041 absent a change in the program, so that current-law scheduled benefits are attainable only with higher taxes. While comparing benefits under a reformed system to those scheduled under current law is misleading in one sense, the lifetime net benefit profile implied by current-law scheduled benefits and taxes still provides a useful benchmark for gauging the relative magnitude of each generation's required sacrifice.

Figure 1: Lifetime Net Benefit Rates by Birth Cohort: Gradual Versus Immediate Reform



Source: Department of the Treasury

Figure 1 indicates that the immediate reform causes the lifetime net benefit rate to fall to −2.1 percent for the 1950 birth cohort and to −3.5 percent for the 1953 birth cohort. (The chart gives figures for every fifth birth cohort, so the 1953 cohort is not actually shown.) Many people would regard such an abrupt change in Social Security's promises so close to retirement as unfair: The ability to adjust to an unexpected change in Social Security's provisions is more limited the older one is at the time that the change occurs.

For this reason, reform plans typically phase in required benefit cuts and/or tax increases gradually. Figure 1 therefore also gives the lifetime net benefit rate profile associated with a reform that reduces lifetime net benefit rates more gradually before leveling off (the dashed line labeled "Gradual Reform"). What is noteworthy is the relationship between the profiles for immediate and gradual reforms. Relative to the immediate reform, the gradual approach is more generous to cohorts born between 1953 and 1970, and it therefore must be less generous to cohorts born after 1970. Again, because Social Security must levy a net tax on reform cohorts exceeding $13.6 trillion, the smaller is the burden imposed on early reform cohorts, the greater is the required burden for later reform cohorts. As a result, the eventual long-run lifetime net benefit rate is lower under the gradual phase-in (−4.0 percent) than for the immediate phase-in (−3.5 percent).

If one accepts that it is fair to have a lifetime net benefit rate that eventually levels off and stays constant, then the pertinent question is how fast a reform should be phased in. The gradual reform shown in Figure 1 phases in fully with the 1975 birth cohort, a cohort that is 33 years old at the time the reform is initiated in 2008. Many would regard that as providing sufficient warning. Giving even more warning would place a higher burden on future generations; for example, delaying full phase-in to the 1988 birth cohort (those aged 20 in 2008) would require cohorts in the far future to bear a larger burden than if the full phase-in were to occur with the 1975 birth cohort.

An alternative approach to reform would depart from having a constant lifetime net benefit rate for reform cohorts after a possible phase-in. Specifically, it might be argued that future generations will

benefit from higher real wages that will come about because of productivity growth, and that lifetime net benefit rates should therefore trend downward for successive birth cohorts. (The idea is that Social Security's net taxes should be progressive *across* birth cohorts as well as within birth cohorts.) This possibility is illustrated by the lifetime net benefit rate profile labeled "Forever Declining Rate" in Figure 2. That profile is equal to the gradual phase-in profile up to the 1955 birth cohort and then commences a more gradual descent that never stops. Relative to the gradual phase-in case, the forever declining case is more generous to birth cohorts born between 1955 and 2055, and is less generous to cohorts born after 2055.

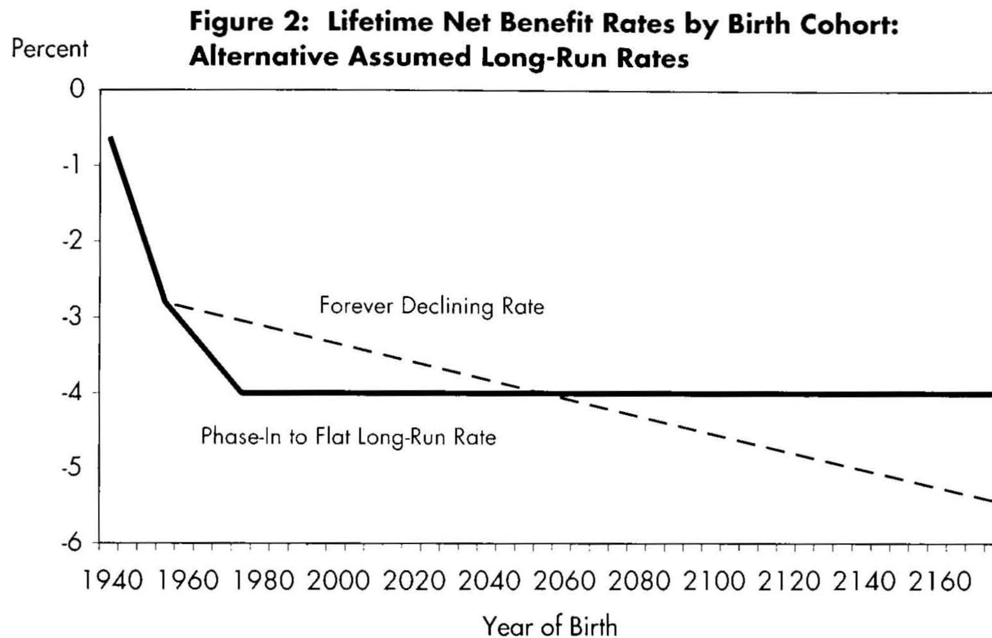


Figure 2: Lifetime Net Benefit Rates by Birth Cohort: Alternative Assumed Long-Run Rates

Source: Department of the Treasury

When considering the proposition that Social Security's net taxes should be progressive across birth cohorts as well as within birth cohorts, it is worth noting that the ethics of imposing progressive taxes between birth cohorts is different than the ethics of imposing progressive taxes within birth cohorts. In the latter case, everyone affected by the policy has direct political representation. In the former case, current generations decide that future generations will contribute disproportionately to making Social Security solvent, but those future generations have no direct influence on the decision. This is the case as well with a partial reform (such as a plan that only attains 75-year solvency), since this puts a larger share of the reform burden on future cohorts.

Work incentive considerations are also important when considering how to allocate Social Security's net taxes across generations. Social Security's net taxes discourage work effort. The work disincentive effects of raising a given amount of tax revenue generally will be smallest if everyone faces the same tax rate rather than if tax rates differ, and this result applies to people living at different times as well as to people living at the same time.[2] Hence, taxing different generations at different rates generally has greater work disincentive effects than taxing all generations at the same rate. This consideration argues for a flat lifetime net benefit rate in the long run, rather than one that forever declines (and therefore results in work disincentives that grow larger for future generations). If it were believed that a forever-declining net benefit rate is fairer than one that eventually flattens out, then deciding the speed at which the net benefit rate should decline involves a familiar tradeoff between equity and efficiency. No such tradeoff is required if the eventually flat profile for the net benefit rate is viewed as fairest.

In this framework, the relevant decisions are: (1) at what rate should reforms be phased in so as to give people sufficient time to adjust their saving and retirement plans; and, (2) at what rate should lifetime net benefit rates decline because of expected increases in the real wages of successive birth cohorts. The precise tradeoffs involved can be estimated. For example, if it were decided that the long-run lifetime net tax rate should be flat, one could estimate the tradeoff between phase-in speed and the eventual level of the lifetime net benefit rate.

As fairness is subjective, there are no right or wrong answers to these questions. A common framework is useful, however, to quantify the tradeoffs involved.

AN EXAMPLE

Figure 3 gives estimates of the lifetime net benefit rate by birth cohort for an illustrative reform that reduces the lifetime net benefit gradually before leveling off and staying constant thereafter (again, this is an illustration, not a policy recommendation). The reform is simple and has two components. The first component involves a gradual benefit reduction (compared to promised benefits) for the 1947 to 1972 birth cohorts (those aged 62 between 2009 and 2036) so that the real benefit levels for a person at a given point in the relative distribution of lifetime wages would stay roughly constant for successive birth cohorts, rather than growing with the average level of real wages people earn.[3] The second component, which applies to cohorts born in 1973 and later, keeps the benefit formula the same as for the 1972 birth cohort except that benefits are reduced proportionately in accordance with changes in life expectancy; this results in a constant lifetime net benefit rate even though people applying for benefits at the normal retirement age are receiving benefits for longer and longer periods of time. (The second component is often referred to as "longevity indexing.") In formulating this plan, an informed guess was made that starting longevity indexing with the 1973 birth cohort would result in a permanently solvent system; this is only a guess, though, which is another reason why this example should be viewed as illustrative only.

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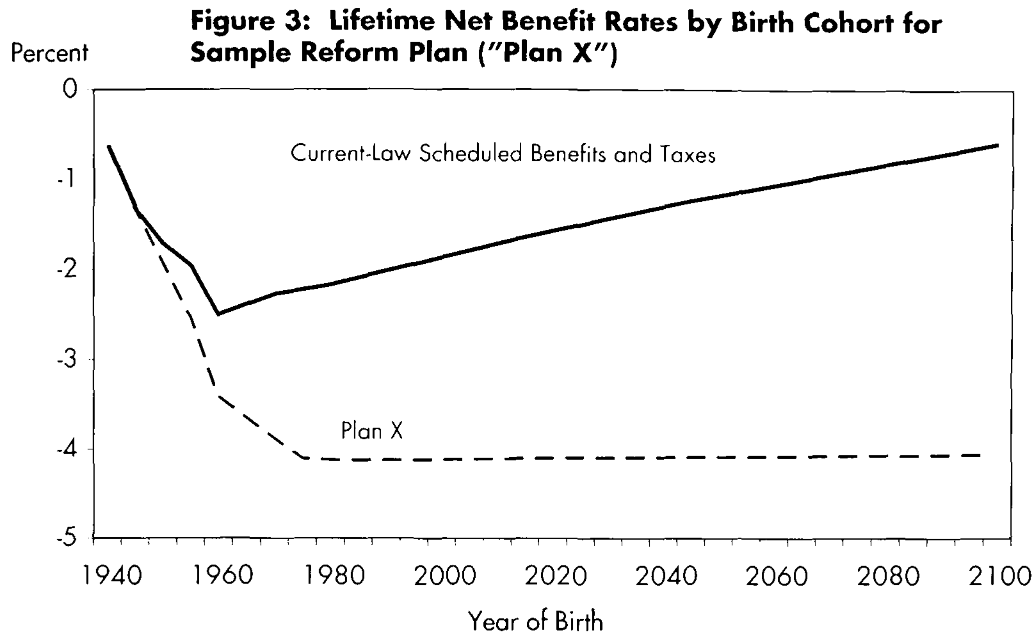
2 If some individuals' work effort (either within a cohort or across cohorts) were relatively less sensitive to taxes, imposing higher taxes on this group would enhance efficiency. It is unlikely, though, that such individuals could in practice be identified, or that doing so would be desirable on other grounds.

3 Such benefit cuts are often referred to as "price indexing" of benefits, but this policy would not actually price-index the individual components of the benefit formula. Under such a policy, all aspects of current law that rely on wage indexation are unchanged except for the final PIA computation. What *does* change is that benefits are set equal to current-law benefits multiplied by the ratio of economy-wide average real wages in the year reform is initiated to economy-wide average real wages in the year the individual turns 62. Current projections are that economy-wide average real wages will grow at about 1.1 percent per year; thus, in this case price indexing reduces benefits from current-law levels by 1.1 percent for the first birth cohort affected, by 2.2 percent for the second birth cohort affected, and so on.

Figure 3: Lifetime Net Benefit Rates by Birth Cohort for Sample Reform Plan ("Plan X")



Source: Department of the Treasury

This reform, which will be referred to as Plan X, is merely an example, and Treasury does not endorse or reject it. Indeed, as will be seen, this plan arguably has some undesirable features.

Figure 3 shows that the Plan X lifetime net benefit rate is the same as current-law scheduled benefits and taxes for cohorts born prior to 1947, and commences a slow and steady decline both absolutely and relative to current-law scheduled benefits and taxes for subsequent birth cohorts, reaching −4.1 percent for the 1972 birth cohort and then remaining roughly constant. Thus, under this plan, cohorts born after 1972 will pay about four percent of their taxable wages to honor the promises made by Social Security to current and past retirees.

The Plan X lifetime net benefit rate profile accords with the flat long-run benchmark shown in Figures 1 and 2. Assuming that is the desired result, the next question that arises is whether the program changes should be phased in more rapidly. If the plan were announced in 2008, the first cohort to be subject to the long-run lifetime net benefit rate would be 36 years old at the time the plan was announced. Would it be fair to subject 40-year-olds in 2008 to the full reform? If so, the program changes could be phased in faster, in which case the long-run lifetime net benefit rate that makes Social Security permanently solvent would be higher (that is, less negative) than −4.1 percent.

PARTIAL REFORMS AND INTERGENERATIONAL FAIRNESS

Treasury's first issue brief emphasized the importance of reforming Social Security sooner rather than later so that the burden of reform can be distributed as fairly as possible across generations. The longer reform is delayed, the fewer the generations that will share the burden of reform and hence the larger the burden that must be imposed on the generations that do contribute toward making Social Security permanently solvent.

A similar point can be made with respect to reforms that close only part of Social Security's financial imbalance, for example, the 75-year actuarial deficit. While such partial reforms would delay the trust fund's insolvency date, they must ultimately be followed up with additional reforms that make Social Security

permanently solvent (lower benefits and/or higher taxes). This two- (or more) stage approach to achieving solvency can have implications for the distribution of the reform burden across generations. This point is illustrated in Figure 4, which starts with a full reform that has a lifetime net benefit rate profile shown by the solid line in the figure. If the partial reform implies a profile that starts on the solid line and continues on the dashed line, then the partial reform phases in as quickly as the full reform and there is time to implement a follow-on reform that achieves the desired ultimate outcome. But if the partial reform phases in more slowly than the full reform (following the dotted line in the figure), this means that by postponing full reform there will be an additional, larger burden on future cohorts relative to the outcome with the full reform.

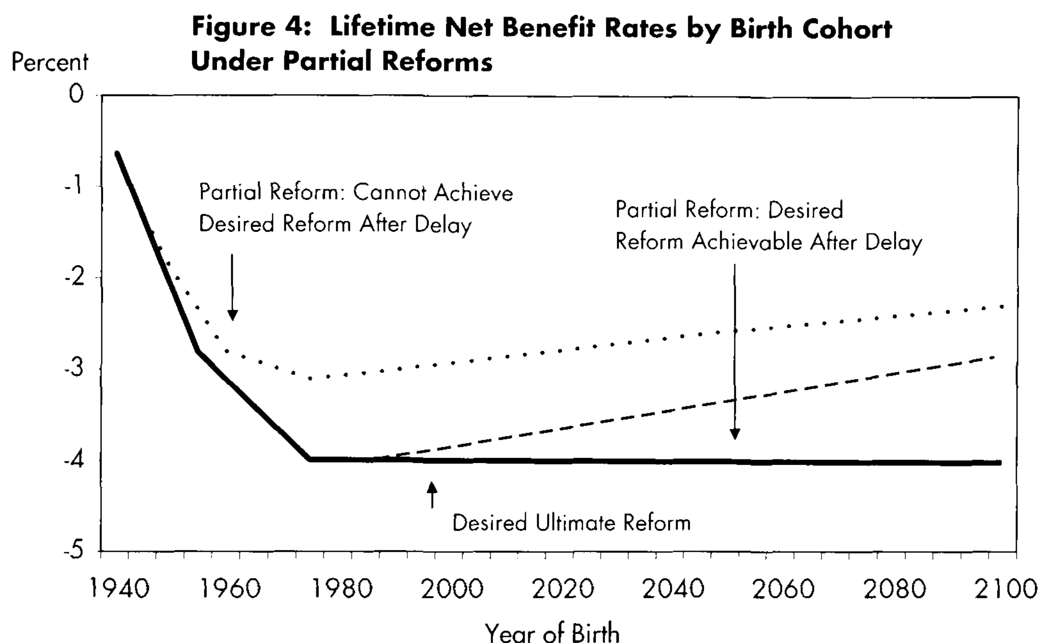


Figure 4: Lifetime Net Benefit Rates by Birth Cohort Under Partial Reforms

Source: Department of the Treasury

It is quite likely that a partial reform—a reform that closes just the 75-year financial shortfall, for example—would phase in less rapidly than a full reform and would therefore result in an unfair burden being imposed on future generations. This can be seen by considering what might motivate a partial reform. In particular, if it were motivated by a desire to push off difficult or unpopular decisions into the future while downplaying the fact that the reform is partial, then the reform would almost certainly be too generous to the early birth cohorts (whose political clout is strongest), and too harsh toward future generations.

Alternatively, if the partial reform were motivated by the belief that Social Security's finances in the distant future are too uncertain to plan for, then at best the reform attempts to allocate a too-small burden fairly, which again implies a reform that is too generous to early birth cohorts (and too punitive to future cohorts). Moreover, this concern over the uncertainty of infinite-horizon projections misses an important point regarding the nature of Social Security's long-run imbalance. As explained in Treasury's first issue brief, the system's infinite-horizon financial imbalance is more than accounted for by scheduled benefits and taxes for people aged 16 and above in 2007. Hence, the difference between Social Security's estimated infinite-horizon imbalance and its estimated 75-year imbalance is not due to speculative projections of the far-distant future. Instead, the difference obtains because the 75-year projections include relatively more of the taxes paid than the benefits received by the individuals who are included in the 75-year calculation.

DECISION 2: FOR A GIVEN ALLOCATION OF SOCIAL SECURITY'S NET LIFETIME BENEFITS *ACROSS* BIRTH COHORTS, DECIDE HOW TO ALLOCATE THEM ACROSS INCOME GROUPS *WITHIN* BIRTH COHORTS

Once a decision is made as to how Social Security's net lifetime benefits should be distributed *across* reform cohorts, the natural next question is how they should be distributed across income groups *within* birth cohorts. More precisely, how should the lifetime net benefit rate differ across income groups within a birth cohort?

A natural place to begin thinking about this question is with reference to current-law scheduled benefits and taxes. (Although those benefits and taxes will certainly not come to pass, a reform could match the same pattern of *relative* net benefit rates by income level as would occur under current-law scheduled benefits and taxes.) Treasury's second issue brief reported estimates of the lifetime net benefit rate profile by birth cohort for each of four composite workers whose wages were denoted as low, average, high, and very high. Those estimates showed that current-law scheduled benefits and taxes are progressive for wage levels below the maximum taxable amount; that is, in this range of lifetime wage levels, the lifetime net benefit rate is higher the lower are lifetime wages. For wages above the taxable maximum, the lifetime net benefit rate rises with lifetime earnings, implying that Social Security is regressive in that earnings range.

Under the current-law Social Security program and many proposed reforms, progressivity derives almost entirely from how the program treats each individual worker as opposed to how it treats households. Each worker's primary benefit is computed as if the person had been single all their life, and "auxiliary" benefits for relatively low-earning spouses and survivors are proportional to that primary benefit. Only Social Security's primary benefits are explicitly linked to wage income. Hence, this section develops a progressivity benchmark for Social Security's primary benefits; that is, benefits paid to a worker if he or she were unmarried. Issues concerning how Social Security treats married couples vis-à-vis unmarried individuals are discussed in Box 1.

BOX 1

THE SOCIAL SECURITY MARRIAGE BENEFIT

While this series of issue briefs does not explicitly discuss reform of Social Security's spouse's and survivors' benefits, this is not meant to suggest that those benefits are unimportant or that they cannot be improved. Indeed, an important question that Social Security reform must address is the extent to which the program should continue to give relatively advantageous terms to married couples with unequal earnings. Those advantageous terms are illustrated in the table below for seven hypothetical couples with unequal earnings, all from the 1965 birth cohort. The first four columns of figures are for one-earner couples, and the last three are for two-earner couples. For each couple, the first row of figures gives the lifetime net benefit rate applying to the couple and the second row gives the lifetime net benefit rate that would apply if the couple were instead two single individuals. The difference in those lifetime net benefit rates is the marriage benefit as a percent of lifetime earnings, the last row of figures. All estimates are for current-law scheduled benefits and taxes.

Lifetime Net Tax Rates for Married Couples with Unequal Earnings (Current-Law Scheduled Benefits and Taxes, 1965 Birth Cohort*)

Item	Steady Earnings Level, Percent of Average, Primary/Secondary**						
	45/0	100/0	160/0	240/0	100/45	160/100	240/160
Lifetime Net Tax Rate							
Actual	−6.5	−2.0	0.1	2.2	1.1	3.1	3.8
If Two Singles	1.2	3.7	4.8	6.0	1.9	3.6	4.4
Marriage Benefit, Percent of Lifetime Earnings	7.7	5.7	4.8	3.8	0.8	0.4	0.6

*Survivors' benefits other than to elderly spouses are not included in the calculations. One-earner couples benefit from the spouse's benefit (equal to 50 percent of the primary earner's benefit) and the widow's benefit (equal to 100 percent of the primary earner's benefit). The two-earner couples shown benefit only from the widow's benefit.

**Calculations assume the primary earner is male and the secondary earner is female. (A specific assumption is required because mortality probabilities are gender specific.)

The table shows that the marriage benefit is large for one-earner couples, and more modest for two-earner couples with unequal earnings. First, consider the one-earner couples. One-earner couples benefit from the fact that individuals can collect benefits based on their own earnings, or they can elect to receive a spouse's benefit equal to 50 percent of their spouse's primary benefit. In addition, individuals can elect to receive a widow's or widower's benefit equal to 100 percent of the primary earner's benefit in lieu of their own retirement benefit. So a stay-at-home spouse receives a retirement benefit half as large as the primary earner while the primary earner is alive, and 100 percent as large as the primary earner after the primary earner dies. A non-working single person, in contrast, would receive no Social Security benefits. This is the source of the marriage benefit, which ranges from 3.8 percent to 7.7 percent of household lifetime earnings for the one-earner couples depicted in the table. While the absolute size of this marriage benefit rises with the earnings level of the primary earner, the marriage benefit as a share of lifetime wages falls with the earnings level. (The estimates in the table do not include marriage benefits deriving from survivors' benefits for children and young dependent spouses.)

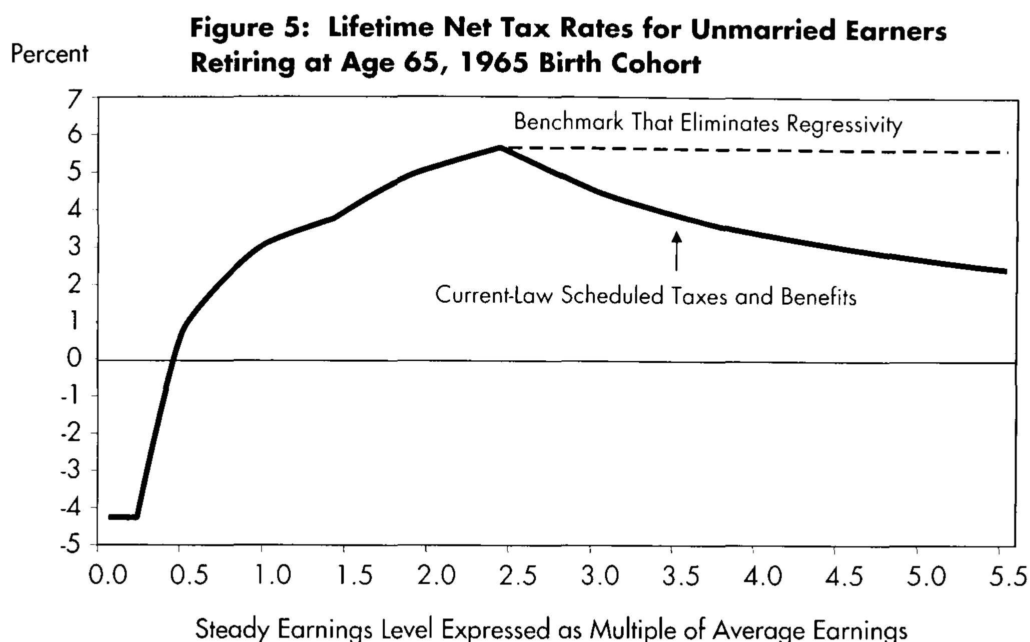
Two-earner couples with unequal earnings receive more modest marriage benefits. All the two-earner couples shown in the table receive initial retirement benefits based on their own earnings. Hence, all of the marriage benefit derives from the ability of the low-earning spouse to collect higher benefits if and when he or she survives the high-earning spouse.

Social Security's spouse's benefits also reduce work incentives. To the extent that a secondary earner might receive the spouse's benefits in lieu of a benefit based on his or her own earnings, the primary earner's marginal net tax rate is reduced and the secondary earner's marginal net tax rate is increased. To see this, consider a couple that is certain to receive a spouse's benefit. Then each additional dollar of primary earnings results in additional accruals of the spouse's benefit, implying a reduced marginal tax rate for the primary earner. By contrast, each additional dollar of secondary earnings results in no additional benefit accruals, implying an increased marginal net tax rate for the secondary earner. Because secondary earners tend to be more responsive to taxes than primary earners when deciding how much to work, the spouse's benefit tends on average to reduce work incentives.

When thinking about Social Security's marriage benefit, it is critical to recognize that Social Security is essentially a zero-sum transfer program: The more generous Social Security is to one-earner couples, for example, the less generous it must be to others on average.

Figure 5 shows how Social Security's lifetime net tax rate for unmarried workers varies with lifetime wages for the 1965 birth cohort. That cohort is one of the first cohorts for which the normal retirement age is 67 and the current 10.6 percent OASI tax rate applies for nearly all of their working life. The figure shows lifetime net tax rates rather than lifetime net benefit rates because progressivity is most naturally discussed in the context of net taxes rather than net benefits. The net lifetime tax rates are computed under the assumption that a worker's wages are proportional to economy-wide average wages in every year between the ages of 22 and 64, and that retirement occurs at age 65.

Figure 5: Lifetime Net Tax Rates for Unmarried Earners Retiring at Age 65, 1965 Birth Cohort



Source: Department of the Treasury

The figure shows that the average lifetime net tax rate (the solid line) rises with lifetime wages up to the taxable maximum level (about 2.4 times average wages) and then declines. This rate starts at −4.3 percent for wages between zero and 0.2 times average wages (implying a wage subsidy for workers at the very bottom of the earnings distribution), then steadily rises, reaching zero percent at about 0.4 times average wages and peaking at a net tax rate of 5.6 percent at 2.4 times average wages. In this income range, Social Security is progressive because lifetime net tax rates are rising with wages. But the lifetime net tax rate falls as wages rise beyond 2.4 times average wages. As was explained in Treasury's second issue brief, this occurs because wages above the maximum taxable earnings level (2.4 times average wages) have no effect on Social Security taxes paid or benefits received. Hence, Social Security's *absolute* lifetime net tax stays constant as earnings rise above maximum taxable earnings, implying that lifetime net taxes as a *share* of lifetime wages (*i.e.*, the lifetime net tax rate) fall with wages as wages exceed the taxable maximum level. In effect, the absolute lifetime net tax that Social Security assesses is capped because the tax base is capped.

Treasury's first issue brief explained that imposing additional net taxes on cohorts subject to reform is necessary in order to service a debt exceeding $13.6 trillion that was incurred by earlier generations. One way to examine the progressivity of a plan to service that debt is to use a benchmark that eliminates the system's historic regressivity above the cap on taxable wages (as measured by net benefit rates). Specifically, this reference point assumes the lifetime net tax rate is the same as current-law scheduled benefits and taxes up to what a steady earner's wages equal to 2.4 times average wages would be, and is then flat at higher wage levels (see the dashed line in Figure 5).

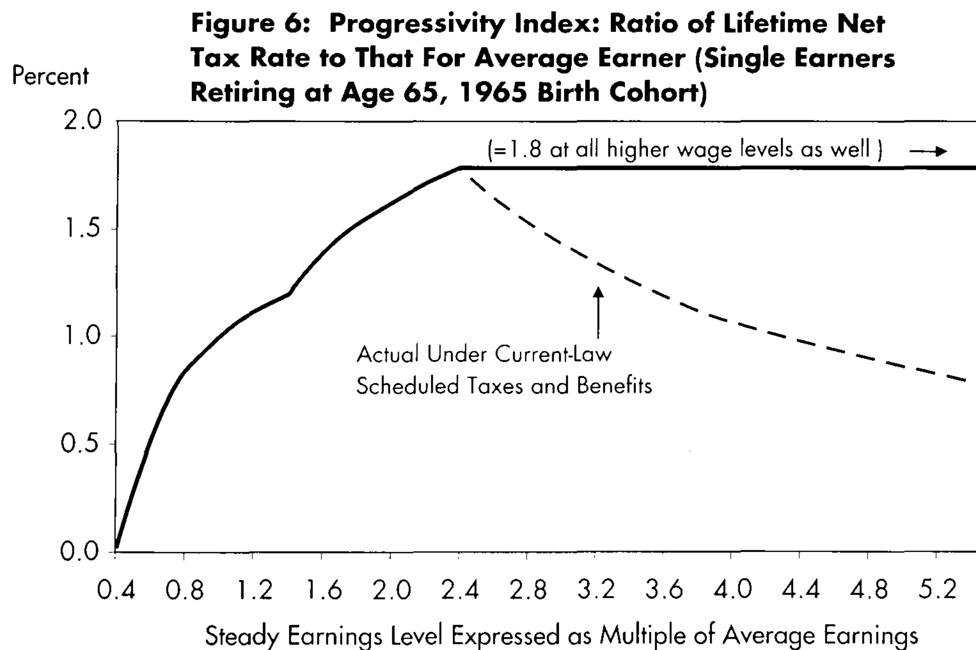
To develop a progressivity benchmark against which to assess reforms, it is useful to imagine how one would match the progressivity of the benchmark lifetime net tax rate profile shown in Figure 5 (the dashed line) if the amount of lifetime net taxes collected from the cohort had to be higher than what is implied under current-law scheduled benefits and taxes. For example, the 1965 birth cohort faces an overall lifetime net tax rate of 3.3 percent under current-law scheduled benefits and taxes. Suppose it were decided to double that rate to 6.6 percent through benefit cuts and/or tax increases. How could this be done while maintaining the same degree of progressivity? One possibility would be to double the lifetime net tax rate

at all earnings levels. But that strategy would also double the wage subsidy given to workers with steady earnings less than 0.4 times average wages. If the subsidy to low earners was already at a level that society deemed appropriate if it were possible to maintain current-law scheduled benefits and taxes, it would not make sense to boost it further when other members of the cohort were being made to bear a larger lifetime net tax burden.

Hence, the proposed progressivity benchmark assumes that workers receiving subsidies under current-law scheduled benefits and taxes are held harmless by reform, and that all other workers' lifetime net tax rates are proportional to those under current-law scheduled benefits and taxes. In this benchmark, the relative lifetime net tax burdens at different earnings levels for persons who pay positive lifetime net taxes do not vary with the amount of total lifetime net taxes paid by the cohort. Again, this is merely one of many possible benchmarks (albeit a relatively straightforward and intuitive one). For example, an alternative would be to compute a summary measure of within-cohort progressivity, and then attempt to apportion the cohort's net tax burden so as to preserve this measured degree of progressivity.

The upshot of this reasoning is the benchmark progressivity index profile shown in Figure 6. It is the benchmark lifetime net tax rate schedule shown in Figure 5 for earnings above 0.4 times average wages divided by the lifetime net tax rate for workers with average wages. For example, the lifetime net tax rates in Figure 5 for wages equal to 1.0 times average wages and 1.4 times average wages are 3.15 percent and 3.76 percent; hence, the progressivity index at 1.4 times average wages shown in Figure 6 equals 1.2 (computed as 3.76 divided by 3.15). If a reform yields a progressivity index profile that is identical to the one shown in Figure 6, then it is maintaining the same relative lifetime net tax burdens at different earnings levels (for persons paying positive lifetime net taxes) as do current-law scheduled benefits and taxes for the 1965 birth cohort.

Figure 6: Progressivity Index: Ratio of Lifetime Net Tax Rate to That For Average Earner (Single Earners Retiring at Age 65, 1965 Birth Cohort)



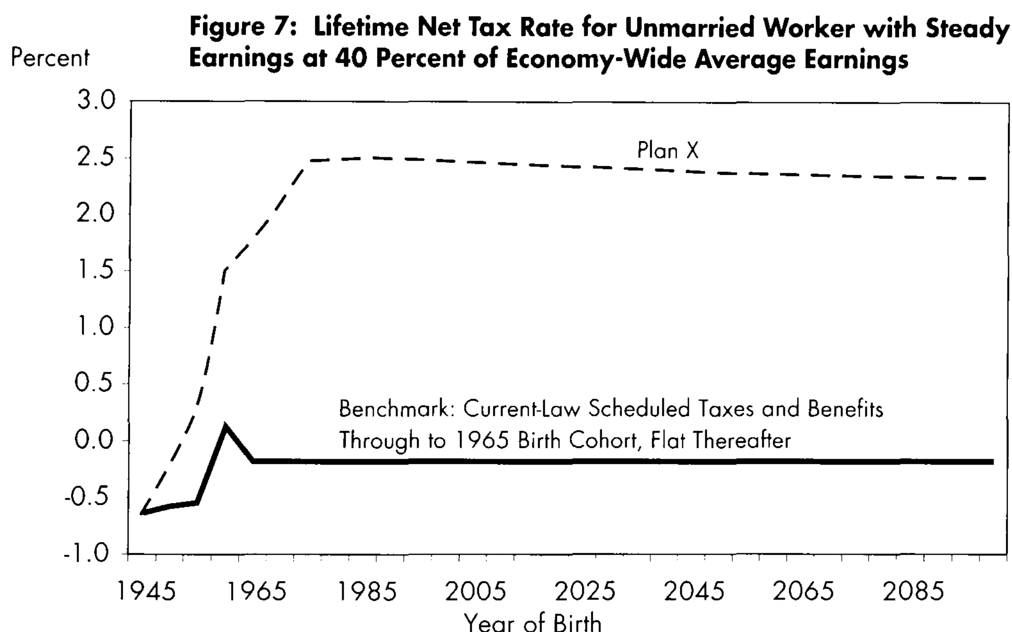
Source: Department of the Treasury

To summarize, the full progressivity benchmark has two elements. First, the benchmark assumes that the lifetime net tax rate for workers born in 1965 or earlier with lifetime wages less than 0.4 times average wages is equal to what obtains under current-law scheduled benefits and taxes; for later birth cohorts, the net tax rate for these workers is held fixed at its level for the 1965 birth cohort. Second, the benchmark assumes that relative lifetime net tax rates for workers with lifetime wages above 0.4 times average wages are as given by the solid line in Figure 6.

AN EXAMPLE

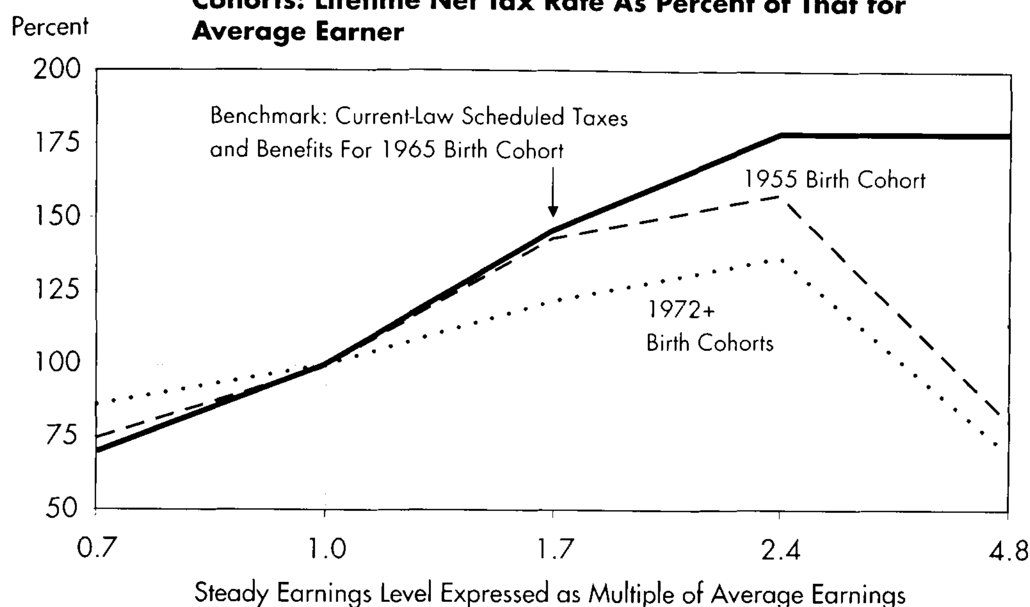
Figures 7 and 8 assess progressivity under Plan X. First, Figure 7 compares the lifetime net tax rate under Plan X for workers whose wages equal 0.4 times average wages with the benchmark that keeps this rate the same as current-law scheduled benefits and taxes up to the 1965 birth cohort and then holds it constant for later cohorts. Plan X raises the lifetime net tax rate rapidly for these workers; starting from a −0.64 percent lifetime net tax rate for the 1945 birth cohort, the same rate as under the benchmark, the lifetime net tax rate rises to 1.5 percent for the 1960 birth cohort and 2.5 percent for the 1975 birth cohort. For later birth cohorts, the lifetime net tax rate trends down slightly because longevity indexing is approximate.

Figure 7: Lifetime Net Tax Rate for Unmarried Worker with Steady Earnings at 40 Percent of Economy-Wide Average Earnings



Source: Department of the Treasury

Figure 8: Plan X Progressivity Index For Selected Birth Cohorts: Lifetime Net Tax Rate As Percent of That for Average Earner



Source: Department of the Treasury

Figure 8 shows how the degree of progressivity changes across selected birth cohorts for those earning more than 0.4 times average wages. (The profile for the 1972 birth cohort also applies to later birth cohorts.) Recall that Plan X had two components. The first component essentially amounts to a proportionate reduction in the present value of lifetime benefits for cohorts born between 1947 and 1972. These benefit reductions cause Social Security to become increasingly less progressive for successive birth cohorts. For lower-wage workers, who have a relatively high ratio of lifetime benefits to lifetime wages, a proportionate reduction in the present value of benefits will have a relatively large effect on the lifetime net tax rate they face. In addition, because Plan X continues to base benefits and payroll taxes on earnings up to the current-law taxable maximum—again, roughly 2.4 times average wages—the plan actually becomes regressive (like current law) for earnings above this level.

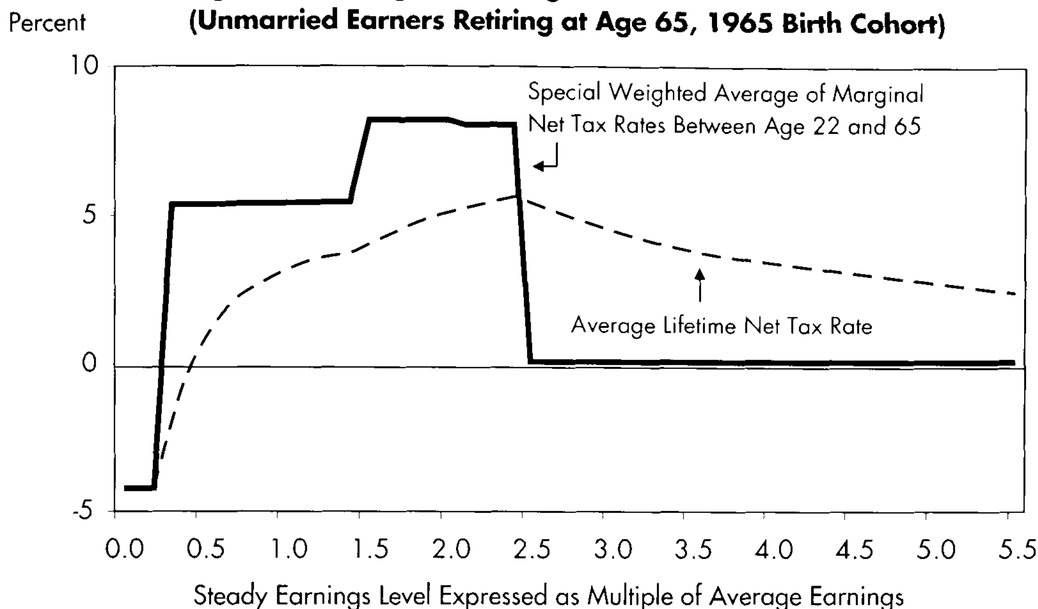
The second component of Plan X, longevity indexing for cohorts born after 1972, keeps benefits from becoming more generous as people live longer. This component of the plan has no effect on Social Security's progressivity under the assumption that longevity is not related to income.[4] Thus, the profile is the same for all cohorts born after 1972.

PROGRESSIVITY AND INCENTIVES TO WORK

An informed choice of how progressive to make Social Security must also address concerns about work incentives. In general, for a given amount of revenue raised, more progressive taxes carry larger work disincentive effects. Hence, the choice of how progressive to make Social Security involves a tradeoff between possible distributional objectives and the cost of reduced work incentives.

4 In practice, progressivity *would* be affected, since disparities in longevity between higher and lower earners appear to be increasing.

Figure 9: Average and Marginal Lifetime Net Tax Rates (Unmarried Earners Retiring at Age 65, 1965 Birth Cohort)



Source: Department of the Treasury

Figure 9 helps explain the effect Social Security's progressivity has on work incentives. The figure reproduces the lifetime net tax rate schedule under current-law scheduled benefits and taxes from Figure 5 (the dashed line), and shows the associated "marginal lifetime net tax rate" schedule (the solid line). The marginal lifetime net tax rate is defined as the change in lifetime net taxes that results from a small change in the steady earnings level, divided by the change in lifetime wages. It can be thought of as the increase in lifetime net taxes that results from a one-dollar increase in wages—the marginal net tax rate—in a typical work year.[5]

The degree to which Social Security discourages work effort is determined by marginal net tax rates. For example, a member of the 1965 birth cohort with steady earnings equal to 1.5 times average wages faces an 8.2 percent marginal lifetime net tax rate. This means that in a typical work year this earner pays 8.2 cents net Social Security tax on an additional dollar of earnings—a 10.6 cent gross tax that is offset at the margin by additional benefits with a value of 2.4 cents. Economic theory suggests that, when a person decides on whether and how much to work, what matters is this marginal net tax rate.[6]

Figure 9 demonstrates that the marginal lifetime net tax rate is higher than the (average) lifetime net tax rate at wage levels where the average rate is rising—that is, where the tax rate schedule is progressive. This is a basic arithmetic fact—an average can be rising only if the marginal addition is above the current average. Hence, the more progressive is Social Security, the higher are its marginal net tax rates and the degree to which it discourages work effort.

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5 Because increasing the steady wage level increases earnings by a small multiple of the average wages in each year of work, the marginal lifetime net tax rate is a particular weighted average of the marginal net tax rates on earnings in the various years of working life. Specifically, if average real wages are growing at rate g and the real discount factor for computing net taxes and lifetime wages is r, and if the marginal net tax rate at age a is denoted MTR_a, then the marginal lifetime net tax rate is $\sum_{a=22}^{65} w_a MTR_a$ where the weights satisfy $\sum_{a=22}^{65} w_a = 1$ and are given by $w_a = [(1+g)/(1+r)]^{a-22} \sum_{i=22}^{65} [(1+g)/(1+r)]_{i-22}$.

6 This assumes that the individual actually expects to receive the future benefit.

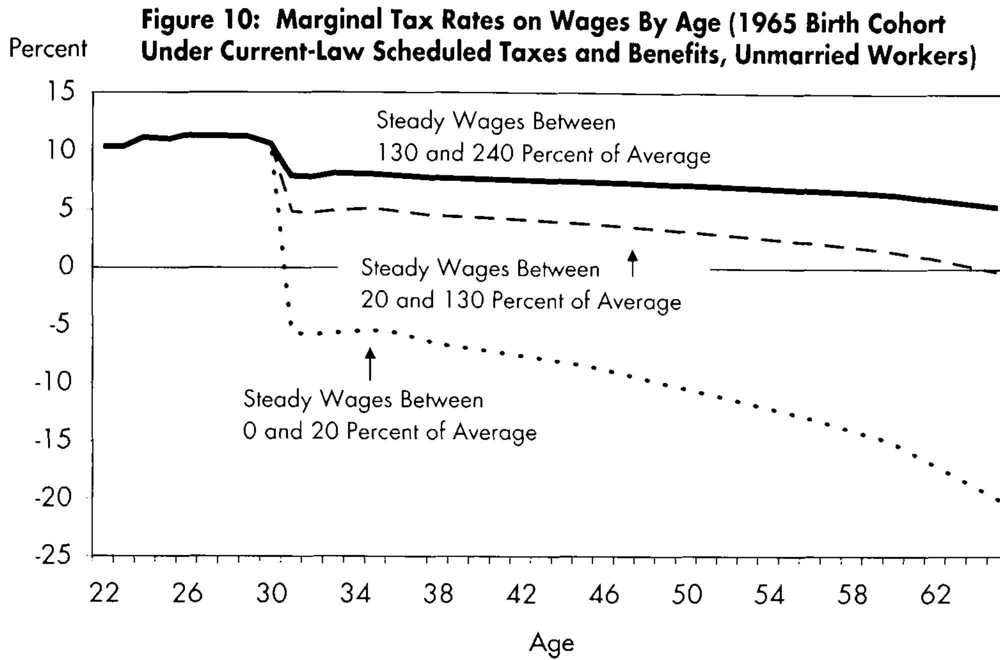

Figure 10: Marginal Tax Rates on Wages By Age (1965 Birth Cohort Under Current-Law Scheduled Taxes and Benefits, Unmarried Workers)

Source: Department of the Treasury

The marginal lifetime net tax rate shown in Figure 9 is a measure of the marginal net tax rate a worker faces in a typical work year. As shown in Figure 10, marginal net tax rates actually vary over an individual's working life. The figure displays three schedules, each applying to the 1965 birth cohort and to different parts of the lifetime wage distribution. All workers face marginal net tax rates equal to the gross payroll tax between ages 22 and 30 because work in those years does not affect benefits (only 35 years of earnings matter for the determination of benefits).[7] Beginning at age 31, earnings do count toward the benefit computation and the marginal net tax rate is less than the gross payroll tax rate. Because of the progressivity of the benefit formula, the marginal net tax rates are negative for the lowest earners (these workers pay negative lifetime taxes) and are positive and progressively larger (a positive and growing net tax rate) for the two higher-earning categories shown.

To conclude, it is important to recognize that Social Security's progressivity comes at the cost of higher marginal net tax rates and reduced work incentives. As with Decision 1, which dealt with intergenerational fairness, any decision about progressivity is intrinsically a value judgment. But it should take this tradeoff into account.

7 For the steady earners considered in Figure 10, it would not matter which of the 39 earnings years between ages 22 and 60 are included for purposes of computing benefits. The figure assumes that the first nine years are excluded (which would be the case if earnings in these years were slightly below a steady earner's). Note that these calculations involve steady earners, so a given individual will reasonably expect to eventually have 40 quarters of creditable earnings (and so will be eligible for Social Security benefits).

DECISION 3: DECIDE HOW LARGE BENEFITS (AND THE TAXES TO SUPPORT THEM) SHOULD BE

Treasury's second issue brief explained that so long as true pre-funding occurs and its implications are understood by workers, the question of how the Social Security reform burden should be allocated across and within birth cohorts is a separate question from how large to make benefits. This is due to the fact that Social Security's payroll taxes on cohorts subject to reform can be divided into two components, net taxes that finance the more than $13.6 trillion in net lifetime benefits paid to early birth cohorts not subject to reform, and forced savings that determine the level of benefits.

Whether a higher benefit level (higher forced saving) reduces work incentives depends on whether the forced savings are truly set aside to help pay future benefits, and whether individuals understand that the forced saving component of their payroll taxes will eventually be returned to them in the form of benefits. These issues were discussed extensively in Treasury's second issue brief.

Treasury's second issue brief introduced the benefit replacement rate as a metric for assessing the adequacy of Social Security benefits. The benefit replacement rate measures the extent to which Social Security benefits alone would allow individuals to sustain their living standards in retirement in the event that the individual entered retirement with no other source of income and with no net worth, including equity in homes and other durables. A replacement rate of 60 percent, for example, indicates that such an individual could on average consume 60 percent as much per year in retirement as he or she did while working.[8]

The benchmark for assessing benefit adequacy that will be considered here is benefit replacement rates by earnings level under current-law scheduled benefits and taxes for the 1965 birth cohort. As with the other benchmarks, this is a reference point, not necessarily a target outcome; indeed, some might object to it on the grounds that maintaining the benchmark benefit levels would require higher revenues relative to current law. (In addition, the benchmark assumes the same degree of reliance in the future on Social Security benefits to finance retirement; it might be desirable instead to have Americans save more on their own.) Nevertheless, this benchmark is useful for assessing the impact of any proposed benefit changes.

AN EXAMPLE

Figure 11 compares benefit replacement rates under Plan X with the benchmark. The figure assumes that people work an additional year for each two years' increase in life expectancy beginning in 2008.[9] Despite the assumed increase in work, benefit replacement rates fall continuously for successive birth cohorts (the replacement rate profiles shift down relative to the benchmark) as benefits are reduced for the 1947 to 1972 birth cohorts under the first component of the plan. Then, when longevity indexing takes effect (for the post-1972 cohorts), benefit replacement rates remain about constant as the effect on the replacement rate of longevity indexing of benefits is offset by the assumed increases in the age at which people choose to retire.

Figure 11 illustrates an important fact: For benefit replacement rates to remain at levels scheduled under current law, additional revenues must be brought into the system. Because Plan X brings in no new revenues, benefit replacement rates necessarily fall relative to the benchmark. This is true despite the assumption that people work longer as life expectancies increase. Again, Plan X is intended to serve only as an illustration; it is not a policy recommendation.

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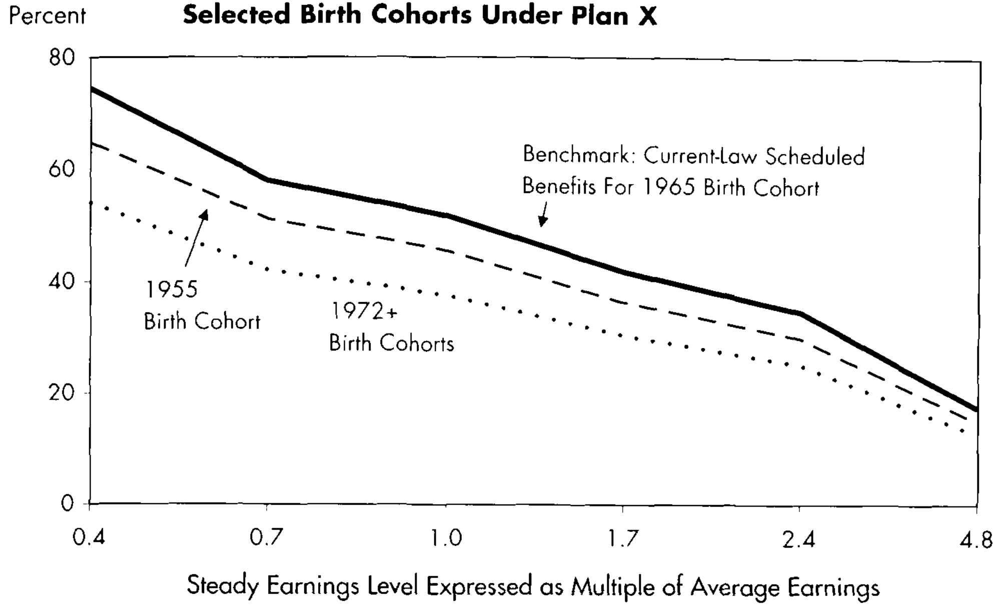
8 Specifically, the measure uses the constant level of real consumption that would be possible between the ages of 21 and 65 if all pre-tax wages earned during those years were consumed. This measure overstates possible lifetime consumption inasmuch as some wage income is taxed.

9 The benchmark assumption that people work one additional year for every two years of additional life expectancy implies that the portion of life spent in retirement would continue to rise as life expectancy increases.

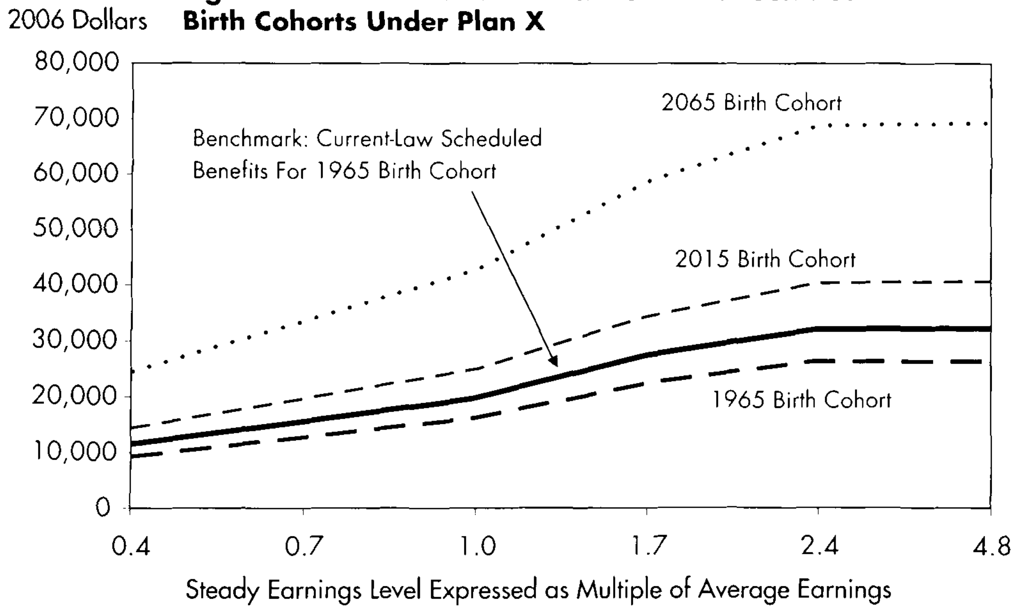
Figure 11: Benefit Replacement Rates For Selected Birth Cohorts Under Plan X



Source: Department of the Treasury

It is important to understand that while benefit replacement rates fall for successive birth cohorts under Plan X, absolute real benefit levels nevertheless rise for successive birth cohorts if people work longer as they live longer. This is shown in Figure 12, which compares Plan X absolute real benefit levels with those for the 1965 birth cohort under current-law scheduled benefits and taxes. Plan X's benefit levels start out lower than the benchmark, but a slow increase in the age at which people choose to retire steadily boosts real benefits, causing them to surpass the benchmark starting with roughly the 1995 birth cohort.

Figure 12: Real Annual Benefit Levels For Selected Birth Cohorts Under Plan X



Source: Department of the Treasury

If it is decided that it is sufficient to have real benefit levels stay constant for successive birth cohorts while cohorts' lifetime earnings become ever larger as a result of increasing real wage levels, then implicit in that decision is the belief that as real wage levels increase, individuals should rely on sources outside of Social Security for an increasing share of their retirement income needs.[10]

CONCLUSION

This third issue brief provides specific benchmarks for assessing the fairness and benefit adequacy of a Social Security reform proposal, thus demonstrating that the framework for designing and evaluating reform plans that was introduced in Treasury's second issue brief can be used in a practical way. (Importantly—and as was discussed in the second brief—the framework is useful for evaluating fairness only if near-term Social Security contributions in excess of benefits paid are truly set aside to help finance future benefits.)

What one considers fair, and what amount of benefits one deems sufficient to provide adequate resources for retirement, will necessarily involve value judgments. Nevertheless, decisions about these questions can be usefully informed by quantitative benchmarks. The benchmarks discussed here can be interpreted either as targets or simply as reference points that can be used to help formulate a target; in either case, the hope is that others will propose their own benchmarks or targets and a dialogue among policy makers and concerned citizens can develop that is informed by a common framework.

10 Relatedly, if attempted pre-funding is not real, then it is questionable whether constant replacement rates should be maintained in the traditional portion of the program, since an absence of true pre-funding will imply that higher benefits for one generation will come from imposing greater costs on future cohorts. Allowing replacement rates to decline in that portion of the program would require individuals to rely more and more on other sources of retirement income (either savings outside of Social Security or a funded component within the program).

January 9, 2008
HP-759

Treasury Designates Individuals, Entity Fueling Iraqi Insurgency

The U.S. Department of the Treasury today designated four individuals and one entity under Executive Order 13438 for threatening the peace and stability of Iraq and the Government of Iraq. The individuals and entity designated today commit, direct, support, or pose a significant risk of committing acts of violence against Iraqi citizens, Iraqi government officials, and Coalition Forces.

"Iran and Syria are fueling violence and destruction in Iraq. Iran trains, funds, and provides weapons to violent Shia extremist groups, while Syria provides safe-haven to Sunni insurgents and financiers," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "Today's action brings to light the lethal actions of these individuals, and we call on the international community to stand with us in isolating them from the global economy."

By committing, directing, and supporting violent attacks in Iraq, these extremists threaten peace and stability and undermine efforts to promote economic reconstruction in Iraq.

Today's action follows President Bush's issuance of E.O. 13438 on July 17, 2007, which targets insurgent and militia groups and their support. Designations under E.O. 13438 are administered by Treasury's Office of Foreign Assets Control and prohibit all transactions between the designees and any U.S. person and freeze any assets the designees may have under U.S. jurisdiction.

Identifying Information

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Abu Ahmad Ishab
Title: Brigadier General, Commanding Officer of the Iranian Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF) Ramazan Corps
Former Title: Deputy Commander of the Ramazan Headquarters and Chief of Staff of the Iraq Crisis Staff
POB: Kermanshah, Iran
DOB: Circa 1958-1963
Alt. DOB: 1957
Alt. DOB: Circa 1955
Education: Husayni Political University
Location: Qods Force Central Headquarters in the former U.S. Embassy Compound in Tehran, Iran

Iran-based Ahmed Foruzandeh, a Brigadier General in the IRGC-QF, leads terrorist operations against Coalition Forces and Iraqi Security Forces, and directs assassinations of Iraqi figures. The Qods Force, designated under E.O. 13224 for providing material support to terrorists, is the regime's primary mechanism for cultivating and supporting terrorists and Islamic militants to advance Iranian national interests. The Qods Force provides training, weapons, and financial support to surrogate groups and terrorist organizations including: Lebanese Hizballah; Palestinian terrorists; Iraqi Shia militant groups; the Taliban and Islamic militants in Afghanistan, the Balkans and elsewhere. The Qods Force plays a central – yet often hidden – role in security interests, including Iraq and Afghanistan. Qods Force

officers often use various cover mechanisms – including diplomatic, non-governmental organization, humanitarian, and media – for conducting operational activity, belying their military affiliation.

As of mid-February 2007, Foruzandeh ordered his Iranian intelligence officers to continue targeting Shia and Sunnis to further sectarian violence within Iraq. Foruzandeh is also responsible for planning training courses in Iran for Iraqi militias, including Sayyid al-Shuhada and Iraqi Hizballah, to increase their ability to combat Coalition Forces. The training includes courses in guerilla warfare, light arms, marksmanship, planting improvised explosive devices (IEDs), and firing anti-aircraft missiles.

Foruzandeh and his subordinates provide financial and material support for acts of violence against Coalition Forces and Iraqi Security Forces. In early-April 2007, Foruzandeh provided $25,000 USD to help fund military operations against Coalition Forces in Salah Ad Din Province, Iraq. Foruzandeh provided the funds to two men claiming to be members of a Sunni terrorist organization in Iraq, promising the men additional funds if they would deliver videos of attacks against Coalition Forces. Foruzandeh also offered to deliver weapons to the border, if the two men could transport the weapons into Iraq in order to fight Coalition Forces. Previously, in August 2004, Foruzandeh drove explosives and associated materials into Iraq from Iran for use in suicide bombings.

In addition to providing financial and material support for attacks against Coalition Forces, Foruzandeh supplied a certain Shia militia group with a target for execution. On July 25, 2005, Foruzandeh held a meeting with representatives of Iraqi Hizballah and other Shia militia groups, calling upon them to continue liquidating all enemies of the Islamic revolution, including security and intelligence personnel, tribal chiefs, and religious clerics.

ABU MUSTAFA AL-SHEIBANI
AKAs: Hameid Thajeil Wareij Al-Attabi
Hamid Al-Shaybani
Abu Mustafa Al-Shebani
Abu Mustafa Al-Shaybani
Mustafa Al-Sheibani
Hamid Thajil
Hamid Thajeel Al-Sheibani
DOB: Circa 1960
Alt. DOB: 1959
POB: Nasiriyah, Iraq
Citizenship: Iranian
All Citizenship: Iraqi
Location: Tehran, Iran

Iran-based Abu Mustafa Al-Sheibani leads a network of Shia extremists that commit and provide logistical and material support for acts of violence that threaten the peace and stability of Iraq and the Government of Iraq. Al-Sheibani's Iran-sponsored network was created to affect the Iraqi political process in Iran's favor. The network's first objective is to fight U.S. forces, attacking convoys and killing soldiers. Its second objective is to eliminate Iraqi politicians opposed to Iran's influence. Elements of the IRGC were also sending funds and weapons to Al-Sheibani's network.

Al-Sheibani's network – consisting of several hundred members – conducted IED attacks against Americans in the Baghdad region. As of March 2007, Al-Sheibani, known to transport Katyusha rockets to be used for attacks against Coalition Forces, launched rockets against Americans and made videos of the attacks to get money from Iran. As of April 2007, a member of Al-Sheibani's network supervised the transport of money and explosives from Iran for eventual arrival in Baghdad. In early-May 2007, Al-Sheibani's network assisted members of a Shia militia group by transporting them to Iran for training and providing them with weapons for their activities in Iraq.

Additionally, Al-Sheibani commands several pro-Iranian insurgent groups in southern Iraq that work to destabilize Iraq and sabotage Coalition efforts. These groups use a variety of weapons, to include mortars, Katyusha rockets, and anti-tank landmines. Ordered by IRGC headquarters to create disorder, the task of

these groups is to attack bases of Coalition Forces in southern Iraq, particularly British forces.

In an effort to cause instability in Iraq, Al-Sheibani and his network targeted Iraqi government officials. Al-Sheibani conducted attacks against the Iraqi Police Chief of Najaf, Iraq, and the Iraqi Deputy Governor in Najaf, Iraq. Al-Sheibani's network also killed Muhammad al-Friji, a colonel in the Iraqi Ministry of Interior.

ISMA'IL HAFIZ AL LAMI (ABU DURA)
AKAs: Abu Dura
Abu Diri
Abu Dar'a
Abu Haydar
Ismail Hafeth Izajawi
Ismail al-Lami
Isma'il Hafith Abid `Ali al-Lami
Ismai'il Hafuz al-Zargawi
DOB: Circa 1957
POB: Baghdad, Iraq
Citizenship: Iraq
Location 1: Iran
Location 2: Sadr City, Baghdad, Iraq

As of 2007, Iran-based Shia extremist Abu Dura and his group were actively targeting Iraqi government officials, Sunni community leaders, and anyone who cooperated with Coalition Forces. In a brazen daylight attack, Abu Dura and his group kidnapped employees from the Ministry of Higher Education in November 2006. Sunni hostages were then singled out, tortured, and killed by men under Abu Dura's control. Abu Dura was also responsible for the July 2006, kidnapping of Taysir Najih Awad al-Mashadani, a Sunni member of the Iraqi Parliament. He also planned to kidnap Sunni Iraqi politician Adnan al-Dulaymi and planned a mortar attack against the residence of Iraqi Vice President Tariq al-Hashimi.

Abu Dura also directs acts of violence against Iraqi civilians. Abu Dura uses members of a Baghdad-based Shia militia to gather information on potential targets. Abu Dura then uses this information to plan and coordinate potential kidnapping and assassination operations. In July 2006, men under Abu Dura's control routinely executed Iraqi citizens in Sadr City, Baghdad.

In addition to directing acts of violence against Iraqi government officials and citizens, Abu Dura supported acts of violence against U.S. and Coalition Forces. In July 2006, men under Abu Dura's control attacked a U.S. forces patrol in Sadr City, Baghdad. The purpose of the attack was to kidnap U.S. soldiers and use them as a tool to make U.S. forces leave Iraq. After fleeing to Iran to avoid capture by Coalition Forces, Abu Dura continued to direct attacks in Iraq against Coalition Forces and Sunnis in Iraq during early-2007. Abu Dura maintained contact with proxies in Iraq who carried out those attacks.

MISH'AN RAKIN THAMIN AL-JABURI
AKAs Mushan al-Jaburi
Meshaan al-Juburi
Mishan Jibouri
Mishan al-Jabouri
Mashaan Aljabouri
Mashaan Jabouri
Mash'an el-Jburi
Mish'an al-Juburi
Mush'an al-Jiburi
Mashan Juburi
Mishan al-Jabburi
Meshan Thamin al Jabouri
Mishan Riqardh Damin al Jabouri
Mishaan al-Jubouri
Mashaan Rakadh Dhamin Al Jabbury
Misham Al Jaburi
Mish'an Rakkad Damin al-Jabburi
Nationality: Iraq
Citizenship: Syrian
DOB: 1 August 1957

POB: Ninwa, Iraq
Passport number: 01374026
Location 1: Latakia, Syria
Location 2: Damascus, Syria

Syria-based Mish'an Al-Jaburi provides financial, material, and technical support for acts of violence that threaten the peace and stability of Iraq. In February 2006, Al-Jaburi was expelled from the New Iraqi Parliament and fled Iraq to Syria for embezzling government funds and supporting Iraq-based insurgents. Al-Jaburi also owns Syria-based Al-Zawra, a television station that considers itself to be part of the fight against the U.S. In one instance, Al-Jaburi agreed to broadcast open-coded messages through patriotic songs to the Sunni terrorist group Islamic Army of Iraq. Additionally, Al-Jaburi utilized his nephew, Hasib Ismail Dandan, to provide storage sites for weapons, funds, and footage transiting in and out of Iraq.

Despite being publicly critical of al-Qa'ida in Iraq (AQI), Al-Jaburi is reported to have provided financial support and services to AQI. Al-Jaburi worked with an AQI jihadist umbrella organization, the Mujahadin Shura Council, to fund Sunni extremist operations. Additionally, Al-Jaburi's television station broadcast recruitment videos for AQI's Abu Bakr Al-Sadiq Al Salafi Battalion.

AL-ZAWRA TELEVISION STATION
AKAs Alzawraa TV
Al-Zawraa TV
El-Zawra satellite station
Zorah Channel
Al Zoura TV station
Al-Zawara satellite television station
Al Zawrah Television
Zawrah TV station
Al Zaoura network
Location: Syria

Syria-based Al-Zawra television station is owned and controlled by Mish'an Al-Jaburi. Publicly stating that he owns Al-Zawra and that "no one" outside his family controlled its content, Al-Jaburi privately agreed to broadcast open-coded messages through patriotic songs to the Sunni terrorist group the Islamic Army of Iraq. Al-Zawra, which has received financing from Al-Qa'ida, is also used as a venue to broadcast graphic videos of attacks against U.S. forces. Additionally, Al-Zawra broadcast recruitment videos for AQI's Abu Bakr Al-Sadiq Al-Salafi Battalion. In November 2006, Al-Zawra's Iraq office was closed by the Government of Iraq for airing programs inciting violence.

In addition to the reasons for which Al-Zawra is being designated, it is a pro-insurgency station that broadcasts graphic videos of insurgent attacks against U.S. forces, advocates violence against Shia, and calls upon Iraqis to unite and take up arms against Coalition Forces.

January 10, 2008
hp-760

Treasury Under Secretary David McCormick to Deliver Speech on China's Journey to Environmentally Sustainable Growth

Treasury Under Secretary David McCormick will deliver a speech on Monday in La Jolla, Calif., at the 2008 Australian American Leadership Dialogue at the University of San Diego (UCSD) Graduate School of International Relations and Pacific Studies. He will discuss policy challenges facing the United States in addressing energy and environmental issues, focusing on recent U.S.-China bilateral developments and recent U.S. leadership efforts in multilateral forums.

What Speech on China's Journey to Environmentally Sustainable Growth

When 12:15 p.m. (PST) Monday, January 14

Where UCSD International House Great Hall
9500 Gilman Drive
La Jolla, Calif.

Note Media interested in attending should RSVP to bjagoda@ucsd.edu.

-30-

January 14, 2008
2008-1-14-14-55-11-1656

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,425 million as of the end of that week, compared to $71,492 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	January 11, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,425
(a) Securities	14,608	11,734	26,342
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	14,536	5,757	20,293
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	4,253		
(3) SDRs	9,496		
(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)

		Total	Maturity breakdown (residual maturity) 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				
(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)	71,425
--currencies in SDR basket	71,425
--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.

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.

January 14, 2008
HP-761

Remarks by Treasury Under Secretary David H. McCormick on China's Journey to Environmentally Sustainable Growth at the West Coast Leadership Dialogue 2008

La Jolla, Calif. - Thank you Phil for that warm introduction, and thank you to the Australian American Leadership Dialogue and the School of International Relations and Pacific Studies at UC San Diego for inviting me to speak with you today. Both the Leadership Dialogue and the School of International Relations arose over the final two decades of the 20th Century to meet the compelling need to engage the best business, scientific and, yes, even government minds, to think though the major economic issues facing the United States, Australia, and the Pacific Rim.

The 2008 West Coast Leadership Dialogue is perfectly timed to fulfill this mission. The United States and Australia together face an Asia in transition. Economic dynamism has created unprecedented opportunities, but at a high cost in energy demand and related environmental damage. The challenge is especially great with respect to China. As we have in the past, we must work together to capture these opportunities and meet these challenges. Under the leadership of President George Bush and Prime Minister Kevin Rudd, we are doing so.

The Importance of Multilateral Engagement

No one can doubt the seriousness of the dual challenges of energy-driven development and climate change. Last November's report by the United Nation's Intergovernmental Panel on Climate Change – the Fourth Assessment report – concluded, and I quote, that: (1) "warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level"; that (2) "most of the observed warming over the last 50 years is likely to have been due to the increase in greenhouse gas concentrations"; and, that (3) "global greenhouse gas emissions due to human activities have ... [increased] 70% between 1970 and 2004".

Climate change is a global challenge that requires global solutions, and President Bush's strategy reflects this reality. Thus, at the December meeting of the United Nations Conference on Climate Change in Bali, the United States focused on practical steps to set the stage for a global, comprehensive and effective post-2012 climate change agreement.

In Bali, the U.S. had three main objectives:

First, to reach consensus on launching negotiations for the development of a post-2012 climate change agreement.

Second, to agree on a comprehensive negotiating roadmap that would include the prospect of meaningful actions by both developed and developing countries to tackle the climate change challenge.

And, third, to agree on a schedule for the negotiations, with the goal of reaching an agreement by the end of 2009.

I am pleased that we and our Bali partners met these objectives in the Bali

Roadmap, a document adopted by 192 countries, developed and developing alike, accounting for almost all of the human sources of climate change. It was not easy, as you know. But the process proved its value, as over the course of twelve days we were all able to air our perspectives, debate our approaches, and move to a hard won and deeply rooted consensus. Now, as we move forward with future negotiations, there can be no question that the United States is committed to working with other countries to achieve a global approach that is both environmentally effective and economically sustainable.

President Bush is already taking a number of practical steps to achieve this goal. A cornerstone of this effort is the "Major Economies Process," in which the United States convenes the world's major economies – including Australia and China -- to contribute to a new global arrangement under the United Nations' process. The U.S. hosted the first of these Major Economies Meetings last September, and it included 17 major economies responsible for more than 80% of the world's economic output, energy use, and greenhouse gas emissions to discuss the development of a work program that can contribute to what became key elements of the Bali Roadmap. Additional meetings to sustain this momentum are scheduled for Honolulu in late January followed by a meeting later this Spring in France.

One of the critical insights fueling this process is the central role of technology in achieving what are often perceived to be the competing priorities of energy-driven economic development and environmental sustainability.

Developed countries have access to state of the art technology that drives economic growth while reducing emissions that contribute to climate change and other sources of pollution. I am not referring to esoteric alternative energy technologies that are five, ten, even twenty years or more from deployment, but rather to existing commercially-available technologies that are being deployed today in the United States, Australia, Europe, and elsewhere to mitigate the environmental impact of economic growth.

However, despite the viability and availability of these technologies, they are not being widely adopted in many emerging economies. The reason is simple – advanced technology is expensive. When viewing the full range of demands on fragile budgets, leaders in developing countries have to consider pressing demands such as education or health care as well as energy. There is a premium on reducing costs to the lowest-cost alternatives to stretch funds to cover as many needs as possible. At this point in their development, many believe they don't have the luxury of investing in environmental sustainability.

The growing global demand for energy will require enormous investments in technology and infrastructure. The International Energy Agency, for example, estimates that some $22 trillion will be invested in energy-supply infrastructure alone between 2006 and 2030, with $10 trillion of that sum being invested in the developing world. Estimates of the incremental cost necessary to ensure that these investments are made in lower carbon infrastructure vary, but among developing nations, it could be $30 billion or more per year. That's $30 billion these countries need for technologies that are available today to fuel growth in an environmentally friendly way.

To put a dent in this funding gap – and catalyze private sector investment -- President Bush has proposed the creation of an international Clean Technology Fund. The United States will be one of the lead donors in what is expected to be a multi-billion dollar fund to help finance the cost of cleaner technology investment in developing countries. The objectives of this fund are to:

(1) Reduce emissions growth in major developing countries through the accelerated deployment of clean technologies;

(2) Stimulate private sector capital by making challenging, high impact clean energy projects more attractive investments; and,

(3) Encourage major emerging economies to participate in a new global climate

framework and adopt environmentally-friendly policies and investments.

We have already held discussions with potential donors for this fund, and we look forward to establishing it later this year.

The Key to the Challenge: China

The widespread adoption of clean technology is one component of a durable solution to the challenge posed by climate change and energy-driven development. But the overall success of this effort hinges upon the question of how cooperation between the developed and developing world will unfold. It is no secret to any in this room that no developing country looms larger in this equation than China.

China's economic development is a signature event of the past three decades. Averaging more than 8 percent per year over this time, China's growth has lifted hundreds of millions of people out of poverty and reshaped the international economy. But it has been fueled by a rapid increase in energy consumption. Today, China is the world's second largest consumer of oil with its oil consumption growing by half a million barrels a day in 2006 -- 38% of the total growth in global demand.

The impact of China's energy demands has not been limited to oil. China is also the world's largest producer and consumer of coal. Although China contains only 13% of the world's proven coal reserves, over the last decade it has been responsible for nearly 40% of total global consumption, generally used to expand China's electrical generating capacity. In 2007, China added 95 gigawatts of electrical generating capacity – that's the equivalent of three new 500-megawatt coal-fired power plants every week, or roughly half of California's total electrical consumption last year.

China's rapid economic growth has come at a terrible cost to its air, water, and soil. Sixteen of the world's 20 most polluted cities are in China. Water quality in China has deteriorated significantly, with 26% of surface water being totally unusable, 62% of water being unsuitable for fish, and over 90% of all rivers running through cities suffering significant pollution. And by its own account, China is overtaking the United States as the world's largest source of greenhouse gases even though its economy is only one sixth in size.

I was able to see an example of China's environmental challenges first hand last summer when I accompanied Treasury Secretary Hank Paulson to Qinghai Lake of China's Western Plateau. Located in the northwest of China, seven of the world's great rivers originate on the Plateau which serves as a primary water source for much of Asia. However, China's Western Plateau and the Qinghai Lake area are in trouble. Over the last thirty years, the lake has started to shrink dramatically, the desert has started to encroach on the surrounding lands, and glaciers situated in the Plateau have been melting at an accelerated pace. The economic and environmental implications of this phenomenon are staggering.

Even some efforts to find cleaner sources of energy have had an environmental boomerang. Take the Three Gorges Dam project. The dam is a remarkable piece of engineering, standing out as the world's largest man-made source of electricity generation from renewable energy. Yet the dam has created extensive environmental problems such as water pollution and landslides, and has come at a tremendous human cost, with the displacement and relocation of over one million people. The dam demonstrates how solving one problem may result in other problems just as significant.

Fostering Bilateral Cooperation between the United States and China

The challenge facing China is quite clear. But make no mistake, this challenge is ours as well – extending to the United States, Australia, and other Pacific Rim nations. The actions we take together are crucial for finding sustainable solutions to global energy demand, global energy security, and global warming.

The United States is stepping up to the challenge. Since 2006, Secretary Paulson has led the United States in senior-level discussions with the Chinese government in the U.S.-China Strategic Economic Dialogue, or the SED. This dialogue has allowed the United States and China to address long-term strategic issues, ranging from financial sector reform to food and product safety to energy and the environment.

Due to the thirst for energy and natural resources in both of our countries, the United States and China have common objectives in advancing technology development and deployment, best practices regarding energy security and efficiency, and environmental stewardship. Our goal in discussions with the Chinese has been to seize this opportunity, and we have made progress.

Agreements have included:

- A commitment by the Chinese, with technical support provided by the United States, to develop and implement a nationwide program on sulfur dioxide emissions trading in the power sector, aimed at reducing one of the key contributors to acid rain and fine particle pollution;
- A joint five-year agreement to promote the large scale deployment of alternative fuel technologies for vehicles, including electric, hybrid-electric and fuel cell technologies;
- Strengthened cooperation on strategic oil reserves, including cooperation with the International Energy Agency; and,
- A memorandum of understanding to combat illegal logging and to promote sustainable forest management.

As this list demonstrates, China also recognizes that it needs to act and act now on its environmental and energy agenda. Indeed, late last year the Chinese government made public its comprehensive plan for addressing many of its environmental challenges.

It is in America's national interest to help China turn its plan into effective and timely action. It is for this reason that at the SED last December, we agreed to launch a ten-year plan for cooperation on energy and environment issues.

This plan provides a path for advancing technological innovation, facilitating the adoption of clean energy technology, developing technology to address climate change, and promoting the sustainability of natural resources. It will build on current efforts underway in both countries by implementing practical steps in areas such as conservation, pollution abatement, technology and R&D, and the development of sound market-oriented environmental and energy policies and regulations. Thus, with this plan, the United States can help the Chinese to make their environmental efforts as effective as possible, as quickly as possible.

Each of these areas holds promise. In conservation, this could lead to further progress on combating illegal logging and sharing expertise on protected lands. In pollution abatement, this could result in market-oriented policies to combat pollutants and improve China's water quality. In research and development, we would hope to see increased academic exchanges between our two countries and the commercialization of alternative energy sources. And in the development of sound market-oriented energy and environmental policies and regulation, we aspire to, among other things, the elimination of barriers to the trade in environmental goods and services.

We are in the process of setting up a joint U.S.-China working group, with Cabinet-level leadership, to get our ten-year plan off to a strong start. Ultimately, the success of this effort will be judged by effective environmental protection and increased energy security while ensuring continued economic growth.

Conclusion

When future scholars write the history of the twenty-first century, they will judge

how we in the United States, Australia and the rest of the developed world cooperated with China and other major emerging economies to solve the enormous challenges posed by climate change and energy-driven economic development. The Bali Roadmap, the Major Economies process, the Clean Technology Fund, and the U.S.-China ten-year plan collectively represent an important starting point for how the United States and the international community can address these challenges.

The Chinese often say that the journey of a thousand miles begins with a single step. Well, we have now taken more than a single step, although there are thousands yet to go. The time is now for leadership to ensure we reach our final destination of a clean and prosperous world.

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January 15, 2008
hp-762

Treasury Targets FARC Financial Network in Colombia

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today announced the designation of one entity and six individuals acting on behalf of the Revolutionary Armed Forces of Colombia or FARC, a Colombian narco-terrorist group.

"Today's designations build upon and augment actions taken by the Colombian authorities against a FARC money exchange company established to launder illicit drug proceeds," said Adam J. Szubin, Director of OFAC. "With this action, we are commencing a campaign against the FARC's financial network to undermine this deadly narco-terrorist organization."

President George W. Bush, on May 23, 2003, designated the FARC as a significant foreign narcotics trafficker pursuant to the Foreign Narcotics Kingpin Designation Act due to its extensive narcotics trafficking activities. The FARC was also named as a Foreign Terrorist Organization by the Secretary of State in October 1997 and was designated as a Specially Designated Global Terrorist pursuant to Executive Order 13224 in November 2001.

The designated FARC financial network centers on the Colombian money exchange business Comercializadora Colombian Money Exchange Ltda. with offices in the cities of Bogota and Villavicencio. Comercializadora Colombian Money Exchange Ltda., a Colombian money exchange business or "profesional del cambio" in Colombia, was used to help launder the narcotics proceeds of the FARC. The enterprise accepted foreign currency from the FARC, derived from drug sales abroad, and in exchange provided pesos to the FARC that it could use in Colombia. The six individuals designated by OFAC include Jorge Eliecer Vargas Arias, Cesar Augusto Vargas Alba, Sandra Milena Vargas Soler, Dora Lilia Pava Giraldo, and Jorge Leandro Vargas Alba.

Also designated is Norberto Antonio Agudelo Velasquez, a significant drug trafficker for the FARC. Agudelo Velasquez was responsible for the production and sale of cocaine for the FARC's 27th front and also was in charge of contacting other drug traffickers to export the FARC's drugs from Colombia. The narcotics proceeds obtained by Norberto Antonio Agudelo Velasquez were laundered through the Comercializadora Colombian Money Exchange Ltda. network.

The FARC's 27th Front is led by Luis Eduardo Lopez Mendez (alias "Efren Arboleda"), who ultimately reports to FARC Secretariat Member Victor Julio Suarez Rojas (alias "Mono Jojoy"). Suarez Rojas is the FARC's Chief of Military Operations and he has served as commander of the Eastern Bloc of the FARC. Victor Julio Suarez Rojas and Luis Eduardo Lopez Mendez were previously designated by OFAC on February 18, 2004 and November 1, 2007, respectively.

This action today is part of ongoing efforts under the Foreign Narcotics Kingpin Designation Act to apply financial pressure against significant foreign narcotics traffickers worldwide. More than 300 businesses and individuals associated with the 68 drug kingpins have been designated pursuant to the Kingpin Act since June 2000. Today's designation would not have been possible without support from the Drug Enforcement Administration.

Today's designation action freezes any assets the seven 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 and fines pursuant to Title 18 of the United States Code.

REPORTS

- 27th FARC Front Financial Flow
- For a complete list of the individuals and entities designated today, please visit: http://www.treasury.gov/offices/enforcement/ofac/actions/index.shtml

To view previous OFAC actions directed against the FARC, please visit:

- Treasury Action against the FARC on November 1, 2007.
- Treasury Action against the FARC on September 28, 2006.
- Treasury Action Against the FARC on February 19, 2004.

Department of the Treasury
Office of Foreign Assets Control

FARC 27th FRONT FINANCIAL FLOW
JANUARY 2008

Victor Julio SUAREZ ROJAS
alias "Mono Jojoy"
FARC Secretariat Member
Previously designated on February 18, 2004

Luis Eduardo LOPEZ MENDEZ
alias "Efren Arboleda"
27th FRONT COMMANDER
Previously designated on November 1, 2007

Norberto Antonio AGUDELO VELASQUEZ
alias "Amado"
Drug Trafficker

① DRUGS

INTERNATIONAL DESTINATIONS

② DRUG PROCEEDS IN FOREIGN CURRENCY

③ DRUG PROCEEDS IN FOREIGN CURRENCY

④ COLOMBIAN PESOS

COMERCIALIZADORA COLOMBIAN MONEY EXCHANGE LTDA
Bogota and Villavicencio, Colombia

Jorge Eliecer VARGAS ARIAS
Owner

Sandra Milena VARGAS SOLER
Owner

Jorge Leandro VARGAS ALBA
Contact

Dora Lilia PAVA GIRALDO
General Manager

Cesar Augusto VARGAS ALBA
Owner

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11/01/2007

The following individuals have been added to OFAC's SDN list:

CABANA GUILLEN, Sixto Antonio (a.k.a. "BIOHO, Domingo"; a.k.a. "BIOJA, Domingo"); DOB 15 Jun 1955; POB Orihueca Cienaga, Magdalena, Colombia; citizen Colombia; nationality Colombia; Cedula Number 19500634 (Colombia) (individual) [SDNTK]

CABRERA DIAZ, Hermilo (a.k.a. CABRERA DIAZ, Ermilo; a.k.a. "BERTULFO"); DOB 25 Nov 1941; POB Huila, Colombia; citizen Colombia; nationality Colombia; Cedula No. 9680080 (Colombia) (individual) [SDNTK]

CAICEDO COLORADO, Abelardo (a.k.a. "SOLIS ALMEIDA"); DOB 3 Mar 1960; POB Mercaderes, Cauca, Colombia; citizen Colombia; nationality Colombia (individual) [SDNTK]

CAMARGO, Norbei (a.k.a. CAMARGO, Norbey; a.k.a. TRIANA, Hermer; a.k.a. "JAMES PATAMALA"; a.k.a. "JAMES PATAPALO"; a.k.a. "MUERTA PARADO"); DOB 5 Aug 1965; POB El Paujil, Caqueta, Colombia; citizen Colombia; nationality Colombia; Cedula No. 17702895 (Colombia) (individual) [SDNTK]

CUEVAS CABRERA, Erminso (a.k.a. "MINCHO"); DOB 16 Sep 1960; POB El Paujil, Caqueta, Colombia; citizen Colombia; nationality Colombia; Cedula No. 96328518 (Colombia) (individual) [SDNTK]

LEAL GARCIA, Ignacio (a.k.a. "CAMILO"; a.k.a. "TUERTO"); citizen Colombia; nationality Colombia; Cedula No. 96186610 (Colombia) (individual) [SDNTK]

LOPEZ MENDEZ, Luis Eduardo (a.k.a. LOPEZ MENDEZ, Alfonso; a.k.a. "EFREN ARBOLEDA"); citizen Colombia; nationality Colombia; Cedula No. 96329889 (Colombia) (individual) [SDNTK]

MOLINA GONZALEZ, Jose Epinemio (a.k.a. MOLINA GONZALEZ, Jose Epimenio; a.k.a. "DANILO GARCIA"); DOB 18 Nov 1957; POB Icononzo, Tolima, Colombia; citizen Colombia; nationality Colombia; Cedula Number T.I. 57111-01681 (Colombia) (individual) [SDNTK]

OLARTE LOMBANA, Alonso (a.k.a. GUZMAN FLOREZ, Reinel; a.k.a. "LUIS EDUARDO MARIN"; a.k.a. "RAFAEL GUTIERREZ"); DOB 7 Nov 1960; alt. DOB 11 Apr 1957; POB Bogota, Colombia; alt. POB Natagaima, Tolima, Colombia; citizen Colombia; nationality Colombia; Cedula No. 18260876 (Colombia) (individual) [SDNTK]

PASCUAS SANTOS, Miguel Angel (a.k.a. "HUMBERTO"; a.k.a. "SARGENTO PASCUAS"); DOB 28 Apr 1952; POB Tello, Huila, Colombia; citizen Colombia; nationality Colombia; Cedula Number 12160124 (Colombia) (individual) [SDNTK]

RODRIGUEZ MENDIETA, Jorge Enrique (a.k.a. "IVAN VARGAS"); DOB 15 Jan 1963; POB Giron, Santander, Colombia; citizen Colombia; nationality Colombia; Cedula No. 91223461 (Colombia) (individual) [SDNTK]

ROPERO SUAREZ, Emiro del Carmen (a.k.a. "RUBEN ZAMORA"); DOB 2 Sep 1962; POB Municipio de Nueva Granada, Norte de Santander, Colombia; citizen Colombia; nationality Colombia; Cedula No. 13461523 (Colombia) (individual) [SDNTK]

SANTANILLA BOTACHE, Miguel (a.k.a. "GENTIL DUARTE"); DOB 10 Dec 1963; POB Florencia, Caqueta, Colombia; citizen Colombia; nationality Colombia; Cedula No. 93123586 (Colombia) (individual) [SDNTK]

TORRES CUETER, Guillermo Enrique (a.k.a. "JULIAN CONRADO"); DOB 17 Aug 1954; POB Turbaco, Bolivar, Colombia; citizen Colombia; nationality Colombia; Cedula No. 9281858 (Colombia) (individual) [SDNTK]

TRASLAVINA BENAVIDES, Erasmo (a.k.a. "ISMARDO MURCIA LOZADA"; a.k.a. "ISNARDO MURCIA LOZADA"; a.k.a. "JIMMY GUERRERO"); DOB 19 Jun 1958; POB Guacamayo, Santander, Colombia; citizen Colombia; nationality Colombia; Cedula No. 13642033 (Colombia) (individual) [SDNTK]

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09/28/2006

The following individuals have been added to OFAC's SDN list:

AGUILAR RAMIREZ, Gerardo Antonio (a.k.a. "CESAR"); DOB 20 Sep 1962; POB Colombia; Cedula No. 16148998 (Colombia); alt. Cedula No. 16447616 (Colombia) (individual) [SDNTK]

AGUIRRE RAMOS, Manuel Francisco, Paseo de los Heroes, Av. 95 B7, Colonia Rio Tijuana, Tijuana, Baja California, Mexico; Prol. Puerta de Hierro, Colonia Puerta de Hierro, Tijuana, Baja California, Mexico; Pda. Manuel M. Flores 2, Colonia Hipodromo Dos, Tijuana, Baja California, Mexico; c/o INMOBILIARIA ESPARTA S.A. DE C.V., Tijuana, Baja California, Mexico; c/o INMOBILIARIA LA PROVINCIA S.A. DE C.V., Tijuana, Baja California, Mexico; Calle 2A Barrio Juarez 2034-702, Colonia Zona Central, Tijuana, Baja California, Mexico; DOB 16 Mar 1969; POB Baja California, Mexico; C.U.R.P. # AURM690316HBCGMN05 (Mexico); R.F.C. # AURM-690316-97A (Mexico) (individual) [SDNTK]

ALVIS PATINO, Gentil (a.k.a. LOPEZ, Angel Leopoldo; a.k.a. MARTINEZ VEGA, Juan Jose; a.k.a. PATINO ORTIZ, Alvis; a.k.a. "CHIGUIRO"; a.k.a. "GONZALEZ, Ruben"); DOB 4 Jun 1961; POB El Doncello, Caqueta, Colombia; Cedula No. 17669391 (Colombia); alt. Cedula No. 12059198 (Venezuela) (individual) [SDNTK]

CARVAJALINO, Jesus Emilio (a.k.a. "PARIS, Andres"); DOB 15 Mar 1955; POB Bogota, Colombia; Cedula No. 3228737 (Colombia); Passport AC192015 (Colombia) (individual) [SDNTK]

GARCIA MOLINA, Gener (a.k.a. "GUTIERREZ, Jhon"; a.k.a. "HERNANDEZ, John"; a.k.a. "JHON 40"; a.k.a. "JOHN 40"; a.k.a. "JOHNNY 40"); DOB 23 Aug 1963; POB San Martin, Meta, Colombia; Cedula No. 17353242 (Colombia) (individual) [SDNTK]

GRANDA ESCOBAR, Rodrigo (a.k.a. "CAMPOS, Arturo"; a.k.a. "GALLOPINTO"; a.k.a. "GONZALEZ, Ricardo"), Avenida Victoria No. 36, Urbanizacion Bolivar La Victoria, Jose Felix Rivas, Estado de Aragua, Venezuela; DOB 9 Apr 1949; POB Frontino, Antioquia, Colombia; Cedula No. 171493523-4 (Ecuador); alt. Cedula No. 19104578 (Colombia); Electoral Registry No. 22942118 (Venezuela); Passport PO16104 (Colombia) (individual) [SDNTK]

HERNANDEZ SOMERO, Urbano, Avenida Manuela Herrera 592, Colonia Rio Reforma CP 22000, Tijuana, Baja California, Mexico; C. Mision de Mulege 2993, Colonia Zona Urbana Rio Tijuana, Tijuana, Baja California, Mexico; Avenida Manuela Herrera 590, Colonia Rio Reforma CP 22000, Tijuana, Baja California, Mexico; Avenida Del Bosque 4640, Colonia Jardines de Chapultepec, Tijuana, Baja California, Mexico; C. Hermosillo, Colonia Rancho El Grande CP 22000, Tijuana, Baja California, Mexico; Pda. Mercurio, Colonia Puerta De Hierro CP 22330, Tijuana, Baja California, Mexico; Pda. Del Cobre 0, Colonia Puerto De Hierro CP 22000, Tijuana, Baja California, Mexico; c/o COMPLEJO TURISTICO OASIS S.A. DE C.V., Rosarito, Baja California, Mexico; c/o PLAYA MAR S.A. DE C.V., Tijuana, Baja California, Mexico; c/o INMOBILIARIA LA PROVINCIA S.A. DE C.V., Tijuana, Baja California, Mexico; c/o INMOBILIARIA ESTADO 29 S.A. DE C.V., Tijuana, Baja California, Mexico; c/o INMOBILIARIA TIJUANA COSTA S.A. DE C.V., Tijuana, Baja California, Mexico; DOB 25 May 1943; POB Mexicali, Baja California, Mexico; C.U.R.P. # HESU430525HBCRMR13 (Mexico); alt. C.U.R.P. # HESU430525HBCRMR05 (Mexico); alt. C.U.R.P. # HEXU430525HBCRXR07 (Mexico); Immigration No. A38839964 (United States) (individual)

[SDNTK]

JIMENEZ PEREZ, Jose Julian Bruno, c/o INMOBILIARIA ESTADO 29 S.A. DE C.V., Tijuana, Baja California, Mexico; Calle Rio Bravo, Colonia Revolucion, Tijuana, Baja California, Mexico; Avenida Independencia, Colonia Zona Urbana Rio Tijuana, Tijuana, Baja California, Mexico; c/o INMOBILIARIA LA PROVINCIA S.A. DE C.V., Tijuana, Baja California, Mexico; DOB 19 Jun 1961; POB Ensenada, Baja California, Mexico; C.U.R.P. # JIPJ610619HBCMRL07 (Mexico) (individual) [SDNTK]

JUVENAL VELANDIA, Jose (a.k.a. MUNOZ ORTIZ, Manuel Jesus; a.k.a. "IVAN RIOS"); DOB 19 Dec 1961; POB San Francisco, Putumayo, Colombia; Cedula No. 71613902 (Colombia) (individual) [SDNTK]

LISANDRO LASCARRO, Jose (a.k.a. MUNOZ LASCARRO, Felix Antonio; a.k.a. "PASTOR ALAPE"); DOB 4 Jun 1959; alt. DOB 1946; POB Puerto Berrio, Antioquia, Colombia; Cedula No. 71180715 (Colombia); alt. Cedula No. 3550075 (Colombia) (individual) [SDNTK]

PELAYO MENDOZA, Franco Arturo, Calle Farallon 3206, Colonia Playas de Tijuana, Secc. Costa Hermosa, Tijuana, Baja California, Mexico; Paseo Playas de Tijuana 317, Tijuana, Baja California, Mexico; Paseo del Pedregal 3034, Colonia Playas de Tijuana, Secc. Costa Hermosa, Tijuana, Baja California, Mexico; Calle De La Luz 218, Colonia Playas de Tijuana, Secc. Costa Hermosa, Tijuana, Baja California, Mexico; Blvd. Insurgentes 16174-18-B, Colonia Los Alamos, Tijuana, Baja California, Mexico; Calle 16 de Septiembre 3-FA, Colonia Las Torres, Tijuana, Baja California, Mexico; Calle Juan Covarrubias, Colonia Los Altos, Tijuana, Baja California, Mexico; c/o INMOBILIARIA TIJUANA COSTA S.A. DE C.S., Tijuana, Baja California, Mexico; DOB 2 Feb 1953; POB Casimiro Castillo, Jalisco, Mexico (individual) [SDNTK]

SERPA DIAZ, Alvaro Alfonso (a.k.a. CERPA DIAZ, Alvaro Alfonso; a.k.a. CERPA DIAZ, Tiberio Antonio; a.k.a. SERPA DIAZ, Alvaro Enrique; a.k.a. "FELIPE RINCON"); DOB 28 Mar 1959; alt. DOB 9 Oct 1956; POB San Jacinto, Bolivar, Colombia; alt. POB Cali, Colombia; Cedula No. 6877656 (Colombia) (individual) [SDNTK]

TOVAR PARRA, Ferney (a.k.a. "DIEGO"; a.k.a. "FERCHO"); DOB 17 Nov 1966; POB Cartagena del Chaira, Caqueta, Colombia; Cedula No. 17640605 (Colombia) (individual) [SDNTK]

URIBE URIBE, Miguel Angel, c/o INMOBILIARIA ESTADO 29 S.A. DE C.V., Tijuana, Baja California, Mexico; Calle Nevado de Toluca 845, Tijuana , Baja California, Mexico; c/o INMOBILIARIA LA PROVINCIA S.A. DE C.V., Tijuana, Baja California, Mexico; DOB 2 Aug 1957; POB Tijuana, Baja California, Mexico; C.U.R.P. # UIUM570802HBCRRG08 (Mexico) (individual) [SDNTK]

VALENCIA MARTINEZ, Alberto Alfredo, Avenida I.T.R. 2207, Colonia Tecnologico, Tijuana, Baja California, Mexico; Calle Geiser 101, Colonia Colinas de Agua Caliente, Tijuana, Baja California, Mexico; Avenida Hipodromo 19, Colonia Hipodromo, Tijuana, Baja California, Mexico; Calle Lomas Altas 1480, Colonia Lomas de Agua Caliente, Tijuana, Baja California, Mexico; Calle Coronado 21760, Colonia Mesetas del Guaycura, Tijuana, Baja California, Mexico; Blvd. Fundadores 0, Colonia El Rubi, Tijuana, Baja California, Mexico; c/o INMOBILIARIA TIJUANA COSTA S.A. DE C.S., Tijuana, Baja California, Mexico; DOB 8 Apr 1949; POB Tijuana, Baja California, Mexico; C.U.R.P. # VAMA490408HBCLRL08 (Mexico); R.F.C. # VAMA-490408-C6A (Mexico) (individual) [SDNTK]

The following entities have been added to OFAC's SDN list:

INMOBILIARIA ESPARTA S.A. DE C.V., Avenida Negrete 220 Local 2B, Colonia Zona Central, Tijuana, Baja California, Mexico; R.F.C. # IES-870805 (Mexico) [SDNTK]

INMOBILIARIA ESTADO 29 S.A. DE C.V., Entre Juan Sarabia y Plutarco Elias C., Tijuana, Baja California, Mexico; Ocampo 1860 4, Colonia Zona Central, Tijuana, Baja California, Mexico; R.F.C. # IEV-950628 (Mexico) [SDNTK]

INMOBILIARIA LA PROVINCIA S.A. DE C.V., Cuauhtemoc 6046 3 Libertad, Tijuana, Baja California, Mexico; R.F.C. # IPR-931014 (Mexico) [SDNTK]

INMOBILIARIA TIJUANA COSTA S.A. DE C.V., Agua Caliente 10440 9, Colonia Aviacion,

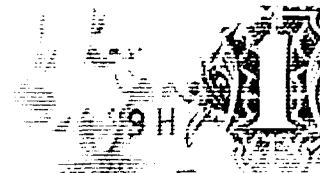
Tijuana, Baja California, Mexico; Entre Abelardo L. Rodriguez y Avenida Del Rio, Tijuana, Baja California, Mexico; R.F.C. # ITC-910503 (Mexico) [SDNTK]

PLAYA MAR S.A. DE C.V., Paseo De Los Heroes, Colonia Rio Tijuana 2110, Tijuana, Baja California, Mexico; Entre Via Rapida y Jose Clemente Orozco, Tijuana, Baja California, Mexico; Blvd. Agua Caliente 10440, Colonia Aviacion 22420, Tijuana, Baja California, Mexico; R.F.C. # PMA-910805 (Mexico) [SDNTK]

The following changes have been made to OFAC's SDN list:

AGUIRRE GALINDO, Manuel, c/o Complejo Turistico Oasis, S.A. DE C.V., Rosarito, Baja California, Mexico; DOB 2 Nov 1950; R.F.C. AUGM-501102-PM3 (Mexico) (individual) [SDNTK] -to- AGUIRRE GALINDO, Manuel, c/o COMPLEJO TURISTICO OASIS, S.A. DE C.V., Rosarito, Baja California, Mexico; c/o INMOBILIARIA ESPARTA S.A. DE C.V., Tijuana, Baja California, Mexico; DOB 2 Nov 1950; POB Tijuana, Baja California, Mexico; R.F.C. AUGM-501102-PM3 (Mexico) (individual) [SDNTK]

GALINDO LEYVA, Esperanza, c/o Complejo Turistico Oasis, S.A. de C.V., Playas de Rosarito, Rosarito, Baja California, Mexico; DOB 16 Aug 1920; R.F.C. GALE-200816-6IA (Mexico) (individual) [SDNTK] -to- GALINDO LEYVA, Esperanza, c/o COMPLEJO TURISTICO OASIS, S.A. de C.V., Playas de Rosarito, Rosarito, Baja California, Mexico; 536 Huerto Place, Chula Vista, CA 91910; 950 Norella Street, Chula Vista, CA 91910; c/o PLAYA MAR S.A. DE C.V., Tijuana, Baja California, Mexico; c/o INMOBILIARIA LA PROVINCIA S.A. DE C.V., Tijuana, Baja California, Mexico; DOB 16 Aug 1920; POB San Ignacio, Sinaloa, Mexico; Passport 99020017901 (Mexico); R.F.C. # GALE-200816-6IA (Mexico); alt. R.F.C. # GALE-241004-61A (Mexico) (individual) [SDNTK]



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02/18/2004 (late p.m.)

The following have been named as Specially Designated Narcotics Trafficker Kingpins (without the a.k.a.s listed as separate entries in this Bulletin):

ENTITIES:

FUNDACION PARA LA PAZ DE CORDOBA (a.k.a. FUNDACION POR LA PAS DE CORDOBA; a.k.a. FUNDAZCOR; a.k.a. FUNPAZCOR), Carrera 6 No. 29-12, Monteria, Cordoba, Colombia; NIT # 830054536-9 (Colombia) [SDNTK]

LOS GNOMOS LTDA., Calle 5 No. 61-82, Apt. 412B, Cali, Valle, Colombia; NIT # 800165614-2 (Colombia) [SDNTK]

SOCIEDAD DE COMERCIALIZACION INTERNACIONAL POSEIDON S.A. (a.k.a. C.I. POSEIDON S.A.; f.k.a. C.I. COMERCIALIZADORA INTERNACIONAL POSEIDON S.A.), Calle 79 Sur No. 48B-56, Sabaneta, Antioquia, Colombia; NIT # 800173090-7 (Colombia) [SDNTK]

OTHER INDIVIDUALS:

ALBAN BURBANO, Luis Alberto (a.k.a. ALBAN URBANO, Luis Alberto; a.k.a. CALARCA, Marco Leon; a.k.a. CALARCA, Marcos Leon); DOB 16 Aug 1957; POB Cali, Valle, Colombia; Cedula No. 16588328 (Colombia) (individual) [SDNTK]

ARROYAVE RUIZ, Elkin Alberto (a.k.a. LOPEZ, Cesar), Carrera 9 No. 71D-10, Cali, Colombia; DOB 3 Sep 1968; POB Caucasia, Antioquia, Colombia; Cedula No. 4652820 (Colombia) (individual) [SDNTK]

ATENCIA PITALUA, Rafael Dario, c/o FUNDACION PARA LA PAZ DE CORDOBA, Monteria, Cordoba, Colombia; DOB 4 Feb 1963; Cedula No. 6889653 (Colombia) (individual) [SDNTK]

BLANCO PUERTA, Edgar Fernando; DOB 19 Jun 1946; POB Medellin, Antioquia, Colombia; Cedula No. 13224238 (Colombia) (individual) [SDNTK]

BOCOTA AGUABLANCA, Gustavo (a.k.a. BOGOTA, Gustavo; a.k.a. "Estevan;" a.k.a. "Tribisu"); DOB 28 Aug 1966; Cedula No. 9466199 (Colombia); alt. Cedula No. 9466833 (Colombia) (individual) [SDNTK]

BRICENO SUAREZ, German (a.k.a. "Granobles;" a.k.a. SUAREZ ROJAS, Noe); DOB 15 Dec 1953; Cedula No. 347943 (Colombia) (individual) [SDNTK]

BRICENO SUAREZ, Jorge (a.k.a. BRICENO SUAREZ, Jorge Enrique; a.k.a. "Mono Jojoy;" a.k.a. "Oscar Riano;" a.k.a. SUAREZ, Luis; a.k.a. SUAREZ ROJAS, Victor Julio); DOB Jan 1953; alt. DOB 1 Feb 1949; alt. DOB 2 Jan 1951; alt. DOB 5 Feb 1953; POB Santa Marta, Magdalena, Colombia; alt. POB Cabrera, Cundinamarca, Colombia; Cedula No. 12536519 (Colombia); alt. Cedula No. 19208210 (Colombia); alt. Cedula No. 17708695 (Colombia);

may also be using Cedula No. 70753211 (Colombia) (individual) [SDNTK]

BUITRAGO PARADA, Hector German (a.k.a. "Martin Llanos"); DOB 21 Jan 1968; POB Monterrey, Casanare, Colombia; Cedula No. 79436816 (Colombia) (individual) [SDNTK]

CABRERA, Jose Benito (a.k.a. CABRERA CUEVAS, Jose Benito; a.k.a. "El Mono Fabian;" a.k.a. "Fabian Ramirez"); DOB 6 Jul 1963; alt. DOB 5 Jul 1965; POB El Paujil, Caqueta, Colombia; Cedula No. 96329309 (Colombia) (individual) [SDNTK]

CARACAS VIVEROS, Oscar (a.k.a. "El Negro Oscar"); DOB 15 Nov 1967; POB Colombia; Cedula No. 96351739 (Colombia) (individual) [SDNTK]

CASTANO GIL, Carlos; DOB 15 May 1965; POB Amalfi, Antioquia, Colombia; Cedula No. 70564150 (Colombia) (individual) [SDNTK]

CASTANO GIL, Hector; DOB 24 Mar 1959; POB Amalfi, Antioquia, Colombia; Cedula No. 3371328 (Colombia) (individual) [SDNTK]

CASTANO GIL, Jose Vicente; DOB 2 Jul 1957; Cedula No. 3370637 (Colombia) (individual) [SDNTK]

CASTELLANOS GARZON, Henry (a.k.a. "Comandante Romana;" a.k.a. "Edison Romana;" a.k.a. "Romana"); DOB 20 Mar 1965; POB San Martin, Meta, Colombia; Cedula No. 17353695 (Colombia) (individual) [SDNTK]

CIFUENTES GALINDO, Luis Eduardo (a.k.a. "El Aguila"); DOB 16 Mar 1960; Cedula No. 3254362 (Colombia) (individual) [SDNTK]

DEVIA SILVA, Luis Edgar (a.k.a. "Raul Reyes"); DOB 30 Sep 1948; POB La Plata, Huila, Colombia; Cedula No. 14871281 (Colombia) (individual) [SDNTK]

DUQUE GAVIRIA, Ivan Roberto (a.k.a. "Ernesto Baez"); DOB 9 May 1955; POB Aguadas, Caldas, Colombia; Cedula No. 10241940 (Colombia) (individual) [SDNTK]

GIRALDO SERNA, Hernan; DOB 16 Oct 1948; Cedula No. 12531356 (Colombia) (individual) [SDNTK]

GOMEZ ALVAREZ, Sor Teresa, c/o FUNDACION PARA LA PAZ DE CORDOBA, Monteria, Cordoba, Colombia; DOB 27 Jun 1956; POB Amalfi, Antioquia, Colombia; Passport 21446537 (Colombia); Cedula No. 21446537 (Colombia) (individual) [SDNTK]

ISAZA ARANGO, Ramon Maria; DOB 30 Sep 1940; POB Sonson, Antioquia, Colombia; Cedula No. 5812993 (Colombia) (individual) [SDNTK]

LONDONO ECHEVERRY, Rodrigo (a.k.a. "Timochenko;" a.k.a. "Timoleon Jimenez"); DOB 22 Jan 1959; alt. DOB 1 Jan 1949; POB Calarca, Quindio, Colombia; Cedula No. 79149126 (Colombia) (individual) [SDNTK]

MANCUSO GOMEZ, Salvatore (a.k.a. LOZADA, Santander), Calle 64 No. 8A-56, Monteria, Cordoba, Colombia; DOB 17 Aug 1964; POB Monteria, Cordoba, Colombia; Cedula No. 6892624 (Colombia) (individual) [SDNTK]

MARIN ARANGO, Luciano (a.k.a. "Ivan Marques;" a.k.a. "Ivan Marquez"); DOB 16 Jun 1955; POB Florencia, Caqueta, Colombia; Cedula No. 19304877 (Colombia) (individual) [SDNTK]

MARIN, Pedro Antonio (a.k.a. "Manuel Marulanda;" a.k.a. "Manuel Marulanda Velez;" a.k.a. MARIN MARIN, Pedro Antonio; a.k.a. "Tirofijo"); DOB 13 May 1930; POB Genova, Quindio, Colombia; Cedula No. 4870142 (Colombia) (individual) [SDNTK]

MATA MATA, Noel (a.k.a. "Efrain Guzman;" a.k.a. "El Chucho;" a.k.a. MATTA MATTA, Noel); DOB 31 Jan 1935; alt. DOB 30 Jan 1935; POB Chaparral, Tolima, Colombia; Cedula No. 4870352 (Colombia) (individual) [SDNTK]

MOLINA CARACAS, Tomas (a.k.a. "Arturo Guevara;" a.k.a. CASTILLO CORTES, Miguel Angel; a.k.a. "El Patron;" a.k.a. "Jorge Medina;" a.k.a. MEDINA CARACAS, Tomas; a.k.a. "Negro Acacio"); DOB 15 Mar 1965; POB Lopez De Micay, Cauca, Colombia (individual) [SDNTK]

MURILLO BEJARANO, Diego Fernando (a.k.a. "Adolfo Paz;" a.k.a. "Don Berna"); DOB 23 Feb 1961; Cedula No. 16357144 (Colombia) (individual) [SDNTK]

PEREZ ALZATE, Guillermo (a.k.a. "Pablo Sevillano"), Diagonal 50 No. 49-14 of. 601, Medellin, Colombia; Calle 26A No. 70-35 Medellin, Colombia; Calle 30 No. 9-51, Monteria, Cordoba, Colombia; Calle 24 No. 1-52, B. Cta de Oro, Colombia; Calle 37 No. 2-40, Almacen Dulcino, Tumaco, Narino, Colombia; Passport AF891052 (Colombia); Cedula No. 71646827 (Colombia) (individual) [SDNTK]

PINEDA PALMERA, Juvenal Ovidio (a.k.a. PALMERA PINEDA, Juvenal Ovidio Ricardo; a.k.a. "Simon Trinidad"); DOB 30 Jul 1950; POB Bogota, Cundinamarca, Colombia; Passports T757205 (Colombia), AC204175 (Colombia), AH182002 (Colombia); Cedula No. 12715418 (Colombia); alt. Cedula No. 12751418 (Colombia); alt. Cedula No. 12715416 (Colombia) (individual) [SDNTK]

ROMERO VARELA, Carlos Ali (a.k.a. MARTINEZ, Richard), c/o LOS GNOMOS LTDA., Cali, Colombia; c/o SOCIEDAD DE COMERCIALIZACION INTERNACIONAL POSEIDON S.A., Sabaneta, Antioquia, Colombia; DOB 19 Mar 1959; alt. DOB 19 Feb 1959; Passport B0088212 (Venezuela); Cedula No. 13447909 (Colombia) (individual) [SDNTK]

SAENZ VARGAS, Guillermo Leon (a.k.a. "Alfonso Cano"); DOB 22 Jul 1948; POB Bogota, Cundinamarca, Colombia; Cedula No. 17122751 (Colombia) (individual) [SDNTK]

SANCHEZ VARILLA, Luis Manuel; DOB 1 Feb 1964; Cedula No. 8174649 (Colombia) (individual) [SDNTK]

SIERRA RAMIREZ, Juan Carlos; DOB 15 Apr 1966; Cedula No. 71680143 (Colombia) (individual) [SDNTK]

TONCEL REDONDO, Milton De Jesus (a.k.a. "El Negro;" a.k.a. "Joaquin Gomez;" a.k.a. "Oro Churco;" a.k.a. "Usurriaga"); DOB 18 Mar 1947; alt. DOB Feb 1949; POB Barrancas, La Guajira, Colombia; alt. POB Ubita, Boyaca, Colombia; Cedula No. 15237742 (Colombia); may also be using Cedula No. 70753211 (Colombia) (individual) [SDNTK]

TORRES VICTORIA, Jorge (a.k.a. "Pablo Catatumbo"); DOB 19 Mar 1953; POB Cali, Valle, Colombia; Cedula No. 14990220 (Colombia) (individual) [SDNTK]

VARGAS PERDOMO, Eugenio (a.k.a. "Carlos Bolas;" a.k.a. DORNELES DE MENEZES, Francisco); DOB 19 Nov 1969; POB Puerto Lopez, Meta, Colombia; Cedula No. 17344616 (Colombia) (individual) [SDNTK]

VARGAS RUEDA, Nelson (a.k.a. "Alfredo;" a.k.a. "Hugo"); DOB 27 Apr 1970; Cedula No. 77130763 (Colombia) (individual) [SDNTK]

All financial assets and real property of:

AL-HARAMAIN FOUNDATION (a.k.a. AL-HARAMAIN : United States Branch; a.k.a. AL HARAMAIN FOUNDATION, INC.; a.k.a. AL-HARAMAIN HUMANITARIAN FOUNDATION; a.k.a. AL-HARAMAIN ISLAMIC FOUNDATION; a.k.a. AL-HARAMAYN; a.k.a. AL-HARAMAYN FOUNDATION; a.k.a. AL-HARAMAYN HUMANITARIAN FOUNDATION; a.k.a. AL-HARAMAYN ISLAMIC FOUNDATION; a.k.a. AL-HARAMEIN; a.k.a. AL-HARAMEIN FOUNDATION; a.k.a. AL-HARAMEIN HUMANITARIAN FOUNDATION; a.k.a. AL-HARAMEIN ISLAMIC FOUNDATION; a.k.a. ALHARAMAIN; a.k.a. ALHARAMAIN FOUNDATION; a.k.a. ALHARAMAIN HUMANITARIAN FOUNDATION; a.k.a. ALHARAMAIN ISLAMIC FOUNDATION; a.k.a. ALHARAMAYN; a.k.a. ALHARAMAYN FOUNDATION; a.k.a. ALHARAMAYN HUMANITARIAN FOUNDATION; a.k.a. ALHARAMAYN ISLAMIC FOUNDATION; a.k.a. ALHARAMEIN; a.k.a. ALHARAMEIN FOUNDATION; a.k.a. ALHARAMEIN HUMANITARIAN FOUNDATION; a.k.a. ALHARAMEIN ISLAMIC FOUNDATION; a.k.a. MU'ASSASAT AL-HARAMAIN AL-KHAYRIYYA; a.k.a. MU'ASSASAT AL-HARAMAYN AL-KHAYRIYYA; a.k.a. MU'ASSASAT AL-HARAMEIN AL-KHAYRIYYA; a.k.a. VAZIR; a.k.a. VEZIR), 1257 Siskiyou Boulevard, Ashland, OR 97520, U.S.A.; 3800

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January 17, 2008
HP-764

OFAC Lifts Designation of Six Colombian Companies
Companies Seized and Forfeited by Colombian Government

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) announced today the removal of six Colombian companies from its list of Specially Designated Narcotics Traffickers. Following their designation, the Colombian Government forfeited the ownership interests held by narcotics traffickers and their family members in each of these companies, paving the way for their delisting.

"Today's action reflects a major success in our efforts to strike at drug cartels and their illicit riches," said OFAC Director Adam J. Szubin. "OFAC's continued pressure on the cartels' assets, combined with the Colombian Government's increasingly successful efforts to seize and forfeit these assets, serves as a powerful weapon against these dangerous narcotics organizations."

OFAC listed these companies as Specially Designated Narcotics Traffickers in the 1990s because they were owned or controlled by Cali Cartel leaders Miguel and Gilberto Rodriguez Orejuela along with their family members. These designations were taken pursuant to Executive Order 12978 of October 21, 1995, which applies financial sanctions against Colombia's drug cartels. The Rodriguez Orejuela brothers were the leaders of the Cali drug cartel, once the most powerful cocaine trafficking organization in Colombia. They are now serving prison sentences in the United States after pleading guilty to federal narcotics trafficking and money laundering charges in September 2006.

These six companies are involved in real estate holdings and are located in Cali, Colombia. The companies' names are: *Inversiones Miguel Rodriguez e Hijo, Inversiones Rodriguez Arbelaez y Cia. S. en C., Inversiones Rodriguez Moreno y Cia. S. en C., Inversiones y Construcciones Atlas Ltda., Inversiones y Construcciones Cosmovalle Ltda.*, and *M.O.C. Echeverry Hermanos Ltda.*

A detailed look at the program against Colombian drug organizations is provided in OFAC's March 2007 *Impact Report on Economic Sanctions against Colombian Drug Cartels:*
http://www.treasury.gov/offices/enforcement/ofac/reports/narco_impact_report_05042007.pdf

FROM THE OFFICE OF PUBLIC AFFAIRS

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January 16, 2008
HP-763

Treasury International Capital (TIC) Data for November

Treasury International Capital (TIC) data for November are released today and posted on the U.S. Treasury web site (www.treas.gov/t which will report on data for December, is scheduled for February 15, 2008.

Net foreign purchases of long-term securities were $90.9 billion.

- Net foreign purchases of long-term U.S. securities were $70.3 billion. Of this, net purchases by foreign official institutions were purchases by private foreign investors were $58.6 billion.
- U.S. residents sold a net $20.6 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $79.7 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $36.! holdings of Treasury bills increased $15.6 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $33.7 billion.

Monthly net TIC flows were positive $149.9 billion. Of this, net foreign private flows were positive $104.9 billion, and net foreign official $45.0 billion.

-30-

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2005	2006	12 Months Through Nov-06	12 Months Through Nov-07	Aug-07	Sep
	Foreigners' Acquisitions of Long-term Securities						
1	Gross Purchases of Domestic U.S. Securities	17157.5	21077.1	20456.9	29216.0	3323.3	233
2	Gross Sales of Domestic U.S. Securities	16145.9	19933.9	19302.3	28216.1	3359.3	227
3	**Domestic Securities Purchased, net (line 1 less line 2) /1**	**1011.5**	**1143.2**	**1154.6**	**999.9**	**-36.0**	**5**
4	**Private, net /2**	**891.1**	**946.6**	**970.8**	**824.0**	**-11.7**	**2**
5	Treasury Bonds & Notes, net	269.4	125.9	132.8	211.9	26.9	1
6	Gov't Agency Bonds, net	187.6	193.8	189.9	126.7	4.3	
7	Corporate Bonds, net	353.1	482.2	482.1	337.1	-3.8	1
8	Equities, net	81.0	144.6	166.0	148.3	-39.1	
9	**Official, net /3**	**120.4**	**196.6**	**183.8**	**175.9**	**-24.2**	**2**
10	Treasury Bonds & Notes, net	68.7	69.6	69.4	-1.9	-29.7	1
11	Gov't Agency Bonds, net	31.6	92.6	79.9	130.5	4.1	

12	Corporate Bonds, net	19.1	28.6	28.2	45.2	3.0	
13	Equities, net	1.0	5.8	6.3	2.1	-1.6	
14	Gross Purchases of Foreign Securities from U.S. Residents	3700.0	5515.9	5352.5	8089.0	823.8	55
15	Gross Sales of Foreign Securities to U.S. Residents	3872.4	5766.8	5574.3	8351.0	858.3	59
16	**Foreign Securities Purchased, net (line 14 less line 15) /4**	**-172.4**	**-250.9**	**-221.8**	**-262.0**	**-34.5**	**-4**
17	Foreign Bonds Purchased, net	-45.1	-144.5	-118.5	-147.1	-21.7	-1
18	Foreign Equities Purchased, net	-127.3	-106.5	-103.3	-114.9	-12.9	-2
19	**Net Long-Term Securities Transactions (line 3 plus line**	**839.1**	**892.3**	**932.9**	**737.9**	**-70.5**	**1**
20	**Other Acquisitions of Long-term Securities, net /5**	**-143.0**	**-169.9**	**-167.6**	**-187.3**	**-16.1**	**-2**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**696.2**	**722.4**	**765.3**	**550.6**	**-86.6**	**-**
22	**Increase in Foreign Holdings of Dollar-denominated Short- U.S. Securities and Other Custody Liabilities: /6**	**-47.6**	**146.2**	**131.9**	**193.6**	**33.7**	
23	**U.S. Treasury Bills**	**-58.9**	**-9.0**	**-21.7**	**29.4**	**21.0**	**-**
24	Private, net	-15.6	16.1	7.0	30.5	17.2	-
25	Official, net	-43.3	-25.0	-28.7	-1.1	3.8	-
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**11.4**	**155.1**	**153.6**	**164.2**	**12.6**	**1**
27	Private, net	10.6	174.9	163.0	83.3	-14.7	
28	Official, net	0.8	-19.8	-9.4	80.9	27.4	
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**16.4**	**198.0**	**249.5**	**-125.7**	**-97.6**	**-3**
30	**Monthly Net TIC Flows (lines 21,22,29) /8** **of which**	**665.0**	**1066.5**	**1146.6**	**618.4**	**-150.5**	**-3**
31	Private, net	578.0	926.2	1031.3	343.3	-129.1	-4
32	Official, net	87.0	140.3	115.3	275.1	-21.4	1

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

/2 Includes international and regional organizations

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

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

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securiti
estimated foreign acquisitions of U.S. equity through stock swaps -
estimated U.S. acquisitions of foreign equity through stock swaps +
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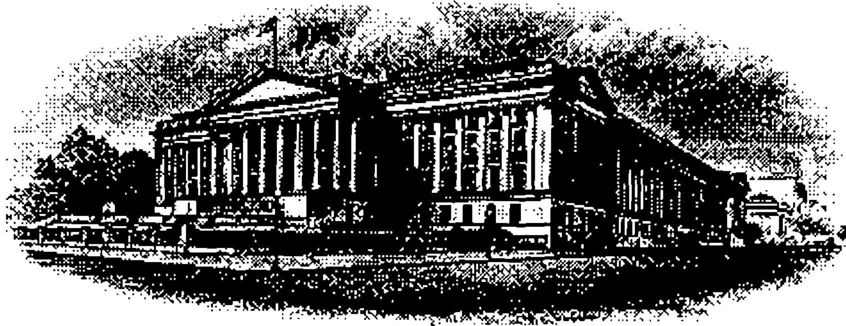
/6 These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims ar quarterly and published in the Treasury Bulletin and the TIC web site.

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

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

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), January 16, 2007
CONTACT Brookly McLaughlin, (202) 622-2920

TREASURY INTERNATIONAL CAPITAL DATA FOR NOVEMBER

Treasury International Capital (TIC) data for November are released today and posted on the U.S. Treasury web site (www.treas.gov/tic). The next release, which will report on data for December, is scheduled for February 15, 2008.

Net foreign purchases of long-term securities were $90.9 billion.

- Net foreign purchases of long-term U.S. securities were $70.3 billion. Of this, net purchases by foreign official institutions were $11.8 billion, and net purchases by private foreign investors were $58.6 billion.

- U.S. residents sold a net $20.6 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $79.7 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $36.5 billion. Foreign holdings of Treasury bills increased $15.6 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $33.7 billion.

Monthly net TIC flows were positive $149.9 billion. Of this, net foreign private flows were positive $104.9 billion, and net foreign official flows were positive $45.0 billion.

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2005	2006	12 Months Through Nov-06	12 Months Through Nov-07	Aug-07	Sep-07	Oct-07	Nov-07
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	17157.5	21077.1	20456.9	29216.0	3323.3	2332.7	2671.9	2886.6
2	Gross Sales of Domestic U.S. Securities	16145.9	19933.9	19302.3	28216.1	3359.3	2276.6	2553.8	2816.2
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1011.5**	**1143.2**	**1154.6**	**999.9**	**-36.0**	**56.2**	**118.0**	**70.3**
4	**Private, net /2**	**891.1**	**946.6**	**970.8**	**824.0**	**-11.7**	**27.9**	**96.2**	**58.6**
5	Treasury Bonds & Notes, net	269.4	125.9	132.8	211.9	26.9	11.6	45.9	23.2
6	Gov't Agency Bonds, net	187.6	193.8	189.9	126.7	4.3	2.3	4.8	20.6
7	Corporate Bonds, net	353.1	482.2	482.1	337.1	-3.8	11.4	15.7	10.6
8	Equities, net	81.0	144.6	166.0	148.3	-39.1	2.5	29.9	4.1
9	**Official, net /3**	**120.4**	**196.6**	**183.8**	**175.9**	**-24.2**	**28.3**	**21.8**	**11.8**
10	Treasury Bonds & Notes, net	68.7	69.6	69.4	-1.9	-29.7	14.4	4.0	0.4
11	Gov't Agency Bonds, net	31.6	92.6	79.9	130.5	4.1	9.2	10.0	6.0
12	Corporate Bonds, net	19.1	28.6	28.2	45.2	3.0	4.6	7.4	4.9
13	Equities, net	1.0	5.8	6.3	2.1	-1.6	0.1	0.4	0.5
14	Gross Purchases of Foreign Securities from U.S. Residents	3700.0	5515.9	5352.5	8089.0	823.8	557.8	809.4	728.7
15	Gross Sales of Foreign Securities to U.S. Residents	3872.4	5766.8	5574.3	8351.0	858.3	598.8	813.5	708.1
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-172.4**	**-250.9**	**-221.8**	**-262.0**	**-34.5**	**-41.0**	**-4.1**	**20.6**
17	Foreign Bonds Purchased, net	-45.1	-144.5	-118.5	-147.1	-21.7	-19.7	-9.1	11.0
18	Foreign Equities Purchased, net	-127.3	-106.5	-103.3	-114.9	-12.9	-21.3	5.0	9.6
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**839.1**	**892.3**	**932.9**	**737.9**	**-70.5**	**15.2**	**114.0**	**90.9**
20	**Other Acquisitions of Long-term Securities, net /5**	**-143.0**	**-169.9**	**-167.6**	**-187.3**	**-16.1**	**-20.6**	**-12.5**	**-11.2**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**696.2**	**722.4**	**765.3**	**550.6**	**-86.6**	**-5.5**	**101.5**	**79.7**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**-47.6**	**146.2**	**131.9**	**193.6**	**33.7**	**5.4**	**31.9**	**36.5**
23	**U.S. Treasury Bills**	**-58.9**	**-9.0**	**-21.7**	**29.4**	**21.0**	**-6.5**	**9.0**	**15.6**
24	Private, net	-15.6	16.1	7.0	30.5	17.2	-4.7	6.9	10.8
25	Official, net	-43.3	-25.0	-28.7	-1.1	3.8	-1.8	2.2	4.8
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**11.4**	**155.1**	**153.6**	**164.2**	**12.6**	**11.9**	**22.9**	**20.9**
27	Private, net	10.6	174.9	163.0	83.3	-14.7	3.0	2.9	3.6
28	Official, net	0.8	-19.8	-9.4	80.9	27.4	8.9	20.0	17.3
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**16.4**	**198.0**	**249.5**	**-125.7**	**-97.6**	**-31.5**	**-41.3**	**33.7**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8 of which	**665.0**	**1066.5**	**1146.6**	**618.4**	**-150.5**	**-31.5**	**92.2**	**149.9**
31	Private, net	578.0	926.2	1031.3	343.3	-129.1	-44.7	50.5	104.9
32	Official, net	87.0	140.3	115.3	275.1	-21.4	13.1	41.6	45.0

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

/2 Includes international and regional organizations

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

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

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

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January 14, 2008
HP-761

Remarks by Treasury Under Secretary David H. McCormick on China's Journey to Environmentally Sustainable Growth at the West Coast Leadership Dialogue 2008

La Jolla, Calif. - Thank you Phil for that warm introduction, and thank you to the Australian American Leadership Dialogue and the School of International Relations and Pacific Studies at UC San Diego for inviting me to speak with you today. Both the Leadership Dialogue and the School of International Relations arose over the final two decades of the 20th Century to meet the compelling need to engage the best business, scientific and, yes, even government minds, to think though the major economic issues facing the United States, Australia, and the Pacific Rim.

The 2008 West Coast Leadership Dialogue is perfectly timed to fulfill this mission. The United States and Australia together face an Asia in transition. Economic dynamism has created unprecedented opportunities, but at a high cost in energy demand and related environmental damage. The challenge is especially great with respect to China. As we have in the past, we must work together to capture these opportunities and meet these challenges. Under the leadership of President George Bush and Prime Minister Kevin Rudd, we are doing so.

The Importance of Multilateral Engagement

No one can doubt the seriousness of the dual challenges of energy-driven development and climate change. Last November's report by the United Nation's Intergovernmental Panel on Climate Change – the Fourth Assessment report – concluded, and I quote, that: (1) "warming of the climate system is unequivocal, as is now evident from observations of increases in global average air and ocean temperatures, widespread melting of snow and ice, and rising global average sea level"; that (2) "most of the observed warming over the last 50 years is likely to have been due to the increase in greenhouse gas concentrations"; and, that (3) "global greenhouse gas emissions due to human activities have ... [increased] 70% between 1970 and 2004".

Climate change is a global challenge that requires global solutions, and President Bush's strategy reflects this reality. Thus, at the December meeting of the United Nations Conference on Climate Change in Bali, the United States focused on practical steps to set the stage for a global, comprehensive and effective post-2012 climate change agreement.

In Bali, the U.S. had three main objectives:

First, to reach consensus on launching negotiations for the development of a post-2012 climate change agreement.

Second, to agree on a comprehensive negotiating roadmap that would include the prospect of meaningful actions by both developed and developing countries to tackle the climate change challenge.

And, third, to agree on a schedule for the negotiations, with the goal of reaching an agreement by the end of 2009.

I am pleased that we and our Bali partners met these objectives in the Bali Roadmap, a document adopted by 192 countries, developed and developing alike, accounting for almost all of the human sources of climate change. It was not easy, as you know. But the process proved its value, as over the course of twelve days we were all able to air our perspectives, debate our approaches, and move to a

hard won and deeply rooted consensus. Now, as we move forward with future negotiations, there can be no question that the United States is committed to working with other countries to achieve a global approach that is both environmentally effective and economically sustainable.

President Bush is already taking a number of practical steps to achieve this goal. A cornerstone of this effort is the "Major Economies Process," in which the United States convenes the world's major economies – including Australia and China -- to contribute to a new global arrangement under the United Nations' process. The U.S. hosted the first of these Major Economies Meetings last September, and it included 17 major economies responsible for more than 80% of the world's economic output, energy use, and greenhouse gas emissions to discuss the development of a work program that can contribute to what became key elements of the Bali Roadmap. Additional meetings to sustain this momentum are scheduled for Honolulu in late January followed by a meeting later this Spring in France.

One of the critical insights fueling this process is the central role of technology in achieving what are often perceived to be the competing priorities of energy-driven economic development and environmental sustainability.

Developed countries have access to state of the art technology that drives economic growth while reducing emissions that contribute to climate change and other sources of pollution. I am not referring to esoteric alternative energy technologies that are five, ten, even twenty years or more from deployment, but rather to existing commercially-available technologies that are being deployed today in the United States, Australia, Europe, and elsewhere to mitigate the environmental impact of economic growth.

However, despite the viability and availability of these technologies, they are not being widely adopted in many emerging economies. The reason is simple – advanced technology is expensive. When viewing the full range of demands on fragile budgets, leaders in developing countries have to consider pressing demands such as education or health care as well as energy. There is a premium on reducing costs to the lowest-cost alternatives to stretch funds to cover as many needs as possible. At this point in their development, many believe they don't have the luxury of investing in environmental sustainability.

The growing global demand for energy will require enormous investments in technology and infrastructure. The International Energy Agency, for example, estimates that some $22 trillion will be invested in energy-supply infrastructure alone between 2006 and 2030, with $10 trillion of that sum being invested in the developing world. Estimates of the incremental cost necessary to ensure that these investments are made in lower carbon infrastructure vary, but among developing nations, it could be $30 billion or more per year. That's $30 billion these countries need for technologies that are available today to fuel growth in an environmentally friendly way.

To put a dent in this funding gap -- and catalyze private sector investment -- President Bush has proposed the creation of an international Clean Technology Fund. The United States will be one of the lead donors in what is expected to be a multi-billion dollar fund to help finance the cost of cleaner technology investment in developing countries. The objectives of this fund are to:

(1) Reduce emissions growth in major developing countries through the accelerated deployment of clean technologies;

(2) Stimulate private sector capital by making challenging, high impact clean energy projects more attractive investments; and,

(3) Encourage major emerging economies to participate in a new global climate framework and adopt environmentally-friendly policies and investments.

We have already held discussions with potential donors for this fund, and we look forward to establishing it later this year.

The Key to the Challenge: China

The widespread adoption of clean technology is one component of a durable solution to the challenge posed by climate change and energy-driven development. But the overall success of this effort hinges upon the question of how cooperation between the developed and developing world will unfold. It is no secret to any in this room that no developing country looms larger in this equation than China.

China's economic development is a signature event of the past three decades. Averaging more than 8 percent per year over this time, China's growth has lifted hundreds of millions of people out of poverty and reshaped the international economy. But it has been fueled by a rapid increase in energy consumption. Today, China is the world's second largest consumer of oil with its oil consumption growing by half a million barrels a day in 2006 -- 38% of the total growth in global demand.

The impact of China's energy demands has not been limited to oil. China is also the world's largest producer and consumer of coal. Although China contains only 13% of the world's proven coal reserves, over the last decade it has been responsible for nearly 40% of total global consumption, generally used to expand China's electrical generating capacity. In 2007, China added 95 gigawatts of electrical generating capacity – that's the equivalent of three new 500-megawatt coal-fired power plants every week, or roughly half of California's total electrical consumption last year.

China's rapid economic growth has come at a terrible cost to its air, water, and soil. Sixteen of the world's 20 most polluted cities are in China. Water quality in China has deteriorated significantly, with 26% of surface water being totally unusable, 62% of water being unsuitable for fish, and over 90% of all rivers running through cities suffering significant pollution. And by its own account, China is overtaking the United States as the world's largest source of greenhouse gases even though its economy is only one sixth in size.

I was able to see an example of China's environmental challenges first hand last summer when I accompanied Treasury Secretary Hank Paulson to Qinghai Lake of China's Western Plateau. Located in the northwest of China, seven of the world's great rivers originate on the Plateau which serves as a primary water source for much of Asia. However, China's Western Plateau and the Qinghai Lake area are in trouble. Over the last thirty years, the lake has started to shrink dramatically, the desert has started to encroach on the surrounding lands, and glaciers situated in the Plateau have been melting at an accelerated pace. The economic and environmental implications of this phenomenon are staggering.

Even some efforts to find cleaner sources of energy have had an environmental boomerang. Take the Three Gorges Dam project. The dam is a remarkable piece of engineering, standing out as the world's largest man-made source of electricity generation from renewable energy. Yet the dam has created extensive environmental problems such as water pollution and landslides, and has come at a tremendous human cost, with the displacement and relocation of over one million people. The dam demonstrates how solving one problem may result in other problems just as significant.

Fostering Bilateral Cooperation between the United States and China

The challenge facing China is quite clear. But make no mistake, this challenge is ours as well – extending to the United States, Australia, and other Pacific Rim nations. The actions we take together are crucial for finding sustainable solutions to global energy demand, global energy security, and global warming.

The United States is stepping up to the challenge. Since 2006, Secretary Paulson has led the United States in senior-level discussions with the Chinese government in the U.S.-China Strategic Economic Dialogue, or the SED. This dialogue has allowed the United States and China to address long-term strategic issues, ranging from financial sector reform to food and product safety to energy and the environment.

Due to the thirst for energy and natural resources in both of our countries, the United States and China have common objectives in advancing technology development and deployment, best practices regarding energy security and

efficiency, and environmental stewardship. Our goal in discussions with the Chinese has been to seize this opportunity, and we have made progress.

Agreements have included:

- A commitment by the Chinese, with technical support provided by the United States, to develop and implement a nationwide program on sulfur dioxide emissions trading in the power sector, aimed at reducing one of the key contributors to acid rain and fine particle pollution;
- A joint five-year agreement to promote the large scale deployment of alternative fuel technologies for vehicles, including electric, hybrid-electric and fuel cell technologies;
- Strengthened cooperation on strategic oil reserves, including cooperation with the International Energy Agency; and,
- A memorandum of understanding to combat illegal logging and to promote sustainable forest management.

As this list demonstrates, China also recognizes that it needs to act and act now on its environmental and energy agenda. Indeed, late last year the Chinese government made public its comprehensive plan for addressing many of its environmental challenges.

It is in America's national interest to help China turn its plan into effective and timely action. It is for this reason that at the SED last December, we agreed to launch a ten-year plan for cooperation on energy and environment issues.

This plan provides a path for advancing technological innovation, facilitating the adoption of clean energy technology, developing technology to address climate change, and promoting the sustainability of natural resources. It will build on current efforts underway in both countries by implementing practical steps in areas such as conservation, pollution abatement, technology and R&D, and the development of sound market-oriented environmental and energy policies and regulations. Thus, with this plan, the United States can help the Chinese to make their environmental efforts as effective as possible, as quickly as possible.

Each of these areas holds promise. In conservation, this could lead to further progress on combating illegal logging and sharing expertise on protected lands. In pollution abatement, this could result in market-oriented policies to combat pollutants and improve China's water quality. In research and development, we would hope to see increased academic exchanges between our two countries and the commercialization of alternative energy sources. And in the development of sound market-oriented energy and environmental policies and regulation, we aspire to, among other things, the elimination of barriers to the trade in environmental goods and services.

We are in the process of setting up a joint U.S.-China working group, with Cabinet-level leadership, to get our ten-year plan off to a strong start. Ultimately, the success of this effort will be judged by effective environmental protection and increased energy security while ensuring continued economic growth.

Conclusion

When future scholars write the history of the twenty-first century, they will judge how we in the United States, Australia and the rest of the developed world cooperated with China and other major emerging economies to solve the enormous challenges posed by climate change and energy-driven economic development. The Bali Roadmap, the Major Economies process, the Clean Technology Fund, and the U.S.-China ten-year plan collectively represent an important starting point for how the United States and the international community can address these challenges.

The Chinese often say that the journey of a thousand miles begins with a single step. Well, we have now taken more than a single step, although there are thousands yet to go. The time is now for leadership to ensure we reach our final destination of a clean and prosperous world.

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January 17, 2008
HP-764

OFAC Lifts Designation of Six Colombian Companies
Companies Seized and Forfeited by Colombian Government

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) announced today the removal of six Colombian companies from its list of Specially Designated Narcotics Traffickers. Following their designation, the Colombian Government forfeited the ownership interests held by narcotics traffickers and their family members in each of these companies, paving the way for their delisting.

"Today's action reflects a major success in our efforts to strike at drug cartels and their illicit riches," said OFAC Director Adam J. Szubin. "OFAC's continued pressure on the cartels' assets, combined with the Colombian Government's increasingly successful efforts to seize and forfeit these assets, serves as a powerful weapon against these dangerous narcotics organizations."

OFAC listed these companies as Specially Designated Narcotics Traffickers in the 1990s because they were owned or controlled by Cali Cartel leaders Miguel and Gilberto Rodriguez Orejuela along with their family members. These designations were taken pursuant to Executive Order 12978 of October 21, 1995, which applies financial sanctions against Colombia's drug cartels. The Rodriguez Orejuela brothers were the leaders of the Cali drug cartel, once the most powerful cocaine trafficking organization in Colombia. They are now serving prison sentences in the United States after pleading guilty to federal narcotics trafficking and money laundering charges in September 2006.

These six companies are involved in real estate holdings and are located in Cali, Colombia. The companies' names are: *Inversiones Miguel Rodriguez e Hijo*, *Inversiones Rodriguez Arbelaez y Cia. S. en C.*, *Inversiones Rodriguez Moreno y Cia. S. en C.*, *Inversiones y Construcciones Atlas Ltda.*, *Inversiones y Construcciones Cosmovalle Ltda.*, and *M.O.C. Echeverry Hermanos Ltda.*

A detailed look at the program against Colombian drug organizations is provided in OFAC's March 2007 *Impact Report on Economic Sanctions against Colombian Drug Cartels*:
http://www.treasury.gov/offices/enforcement/ofac/reports/narco_impact_report_05042007.pdf

January 18, 2008
HP-765

Secretary Paulson Statement on HOPE NOW Progress Report

Washington- Secretary Henry M. Paulson, Jr. issued the following statement today regarding the HOPE NOW alliance's progress report on the number of homeowners helped since the organization's inception. The report indicated that during the fourth quarter, following the creation of the alliance, mortgage servicers in the organization were modifying subprime loans three times faster than in the third quarter. The industry assisted 370,000 homeowners during the second half of 2007. Additionally, more than 16 percent of borrowers responded to 233,000 HOPE NOW outreach letters sent in November by contacting their servicers, far more than the normal letter response rate of 2-3 percent for delinquent borrowers.

"The HOPE NOW report today is a promising development. This organization is showing the potential to help more homeowners keep their homes and working to prevent a market failure- without forcing American taxpayers to pay the bill.

"As I have said, entire industries do not adjust easily or quickly, even in times of market calm. But this alliance is demonstrating that an industry can improve its coordination and outreach to make a difference.

"This progress is heartening and I look forward to seeing regular progress reports from the organization in the coming months, as servicers implement the streamlined modification and refinance plan announced in December. We will continue to learn as we move forward and will look for additional measures to reach more borrowers to prevent as many avoidable foreclosures as possible."

January 18, 2008
HP-766

**Statement by Secretary Henry M. Paulson, Jr.
on Short-Term Growth Package
at White House Press Briefing**

Washington, DC--Before the President left for the Middle East, he told the nation he recognized the growing concerns about the economy and he asked his economic team to assess the need for a growth package. I talked with knowledgeable people in all parts of the economy, and reviewed the data with the economic team, and we regularly reported our thinking to the President while he was traveling. When he returned, he made the decision that we need to act quickly to support the economy in the short term.

The long-term fundamentals of the economy are strong, and I believe our economy will continue to grow. At the same time, the U.S. economy is experiencing a significant housing correction. This correction was inevitable after years of unsustainable home price appreciation, and it is exacting a penalty to our economic growth. We are taking steps to minimize the impact on homeowners and the real economy, and we will continue to work with Congress to do more on housing.

The housing correction, capital market turmoil, and high oil prices together have caused our economy to slow materially in recent weeks. While I am confident in our long-term economic strength, the short term risks are clearly to the downside, and the potential cost of not acting has become too high. We must act now to support our economy this year.

The President laid out today clear principles that should guide the creation of an effective growth package. We are focused on working with Congress to quickly reach consensus on a plan that gets cash to consumers and gives businesses incentives to invest, grow and hire. We know from experience that these policies work to stimulate growth in the short term. The package should be robust enough to make an impact this year, and should be temporary so that it doesn't impact our long-term fiscal position.

Over the last few weeks, I consulted with the leaders in Congress and a broad group of members in both parties to gather their views. I heard from them the same thing the President heard from them yesterday - our economy is slowing faster than expected, and that means we need to act quickly to put together a package that is temporary, simple enough to get enacted quickly, effective at boosting growth and job creation this year and large enough to make a difference.

I am confident that the principles the President outlined today are a solid foundation on which to build – they reflect the principles members of Congress have advocated publicly and have discussed with me privately in recent weeks. I look forward to engaging with Congressional leaders immediately to support our economy this year.

January 22, 2008
HP-767

Secretary Paulson Remarks on the Economy
Before the U.S. Chamber of Commerce

Washington- Thank you, Bruce, and good morning. It is good to be here for an early start to what will be a busy, and I hope productive, week. On Friday, President Bush announced his outline of an immediate and meaningful fiscal growth package that will boost consumer spending and support business investment this year. The President and his economic team have been tracking economic signals closely for some time now, and I and my team have been actively engaged with policymakers here and around the world as we closely monitor the global equity correction. I continue to have confidence in the underlying strength of the global economy.

The U.S. economy is experiencing a significant housing correction. This was inevitable after years of unsustainable home price appreciation, and it is exacting a penalty to our economic growth. That, coupled with high energy prices and capital market turmoil has caused our economy to slow materially in recent weeks.

We are already taking aggressive action to minimize the impact on homeowners and the real economy by preventing avoidable foreclosures. We will continue to work with Congress to do more on housing. At the same time, we will work with Congress to quickly enact a broader temporary growth package to support our economy this year, as we weather the housing correction. The President has asked me to lead this effort, and so far we are engaged in a collaborative, bipartisan process that should result in a robust, broad-based, temporary growth plan that can be swiftly passed and enacted.

The U.S. economy is resilient. The unemployment rate remains low and job creation continues, albeit at a modest pace. The structure of our economy is sound and our long-term economic fundamentals are healthy. I have visited countries all over the world, and the more I see the more sure I am that America's workers are the most productive and innovative anywhere. But we need to do something now, because the short-term risks are clearly to the downside, and the potential benefits of quick action to support our economy have become clear.

Specifically, the President called for a robust package that is large enough to have a real impact on our economy and will bolster consumer spending and business investment this year. We know from experience that both immediate tax relief for income tax payers and incentives for businesses to invest and hire are effective in creating growth and jobs in the short-term.

I spent much of last week and this weekend talking with Republican and Democratic congressional leadership and members of Congress from across the nation. These positive discussions have revealed broad agreement on the need to quickly enact a temporary plan that boosts our economy this year.

The President's outline reflects ideas from these consultations and represents a solid foundation for cooperation. Time is of the essence, and the President stands ready to work on a bipartisan basis to enact economic growth legislation as soon as possible.

I am optimistic that we can find common ground and get this done long before winter turns to spring. By working together, we can disprove the old Washington axiom that partisan politics prevents most short-term growth packages from being enacted fast enough to do any good.

Four criteria will guide my efforts going forward. As the President said, the legislation that will best serve our economic interest must be swift, robust, broad-

based and temporary.

It must be swift. The legislation must be enacted quickly, and the elements of the legislation must have immediate impact. If we miss this, we miss the mark.

It must be robust. The President proposed a package approximating one percent of GDP --- anything less than that will not have a meaningful impact. Raising taxes to offset these initiatives will diminish potential job creation and growth benefits. The last thing we should do right now is take money out of the economy.

It must be broad-based. To be effective, the package must reach a large number of citizens. To move quickly through the legislative process, we should keep this proposal simple. Debates over favorite programs will inevitably bog down the process. We want to act in time to help families get through a tough economic time.

And, finally, it must be temporary, to avoid impacting our long-term fiscal position.

Our focus on short-term growth does not supersede or minimize our commitment to the economic policies which we know to be in our country's long-term best interest ---- a pro-growth tax system, entitlement reform and a balanced budget. We will continue to advocate making the President's tax relief permanent, balancing the budget, and addressing the long-term sustainability of Social Security and Medicare. To succeed in quickly enacting a short-term growth package, I am confident Congressional leaders agree that the debate over these longer-term issues will proceed apart from this effort.

In addition, the Administration continues our on-going efforts to minimize the housing market's impact. We have made progress. Last Friday the HOPE NOW alliance, a coalition representing over 90 percent of the subprime servicing market, as well as non-profit mortgage counseling organizations, trade associations and investors, announced promising developments. This industry-wide effort employs multiple tools to reach and help struggling homeowners, including streamlining subprime borrowers into refinancings and loan modifications. According to HOPE NOW, the industry assisted 370,000 homeowners in the second half of 2007, and mortgage servicers modified subprime loans during the fourth quarter at a rate three times faster than in the third quarter.

As I have said, entire industries do not adjust easily or quickly, even when markets are calm. This alliance is demonstrating that an industry can, through coordination, make a difference and do so without forcing American taxpayers to pay the bill. I look forward to regular progress reports in the coming months. As we learn more, we will look for additional measures to reach more borrowers and prevent as many avoidable foreclosures as possible.

The Administration has also, through FHASecure, expanded affordable mortgage options. Working with Congress, we have increased funding for mortgage counselors who assist struggling homeowners. We have also temporarily eliminated taxes on forgiven mortgage debt. But more action is needed in the housing sector, action just as urgent as a broader short-term economic boost.

Congress needs to pass legislation to modernize the FHA, to increase availability of affordable FHA mortgages. It needs to strengthen regulatory oversight of Fannie Mae and Freddie Mac to ensure they will continue to fulfill their affordable mortgage financing mission. And as part of this reform, to temporarily raise the loan limit on conforming mortgages for securitization. Congress should also allow states to issue tax-exempt bonds to raise funds for innovative refinancing programs.

I am confident that Congress and the Administration share a sense of urgency and will work together to address the economy's short-term needs. I look forward to engaging intensely with the Congress to get money into our economy quickly.

The U.S. economy is resilient and diverse. It has been remarkably robust in recent years, and will be so again. Yet, neither today nor tomorrow should our economic health be a partisan issue. It is a shared, fundamental responsibility of all leaders who want continued opportunity and prosperity for all Americans.

January 23, 2008
HP-768

Statement by Secretary Paulson on Executive Order Concerning Foreign Investment in the United States

"Foreign investment plays an important role in maintaining America's economic strength. When foreign companies invest in the United States, they are sending a clear signal of confidence in the American economy and American workers. The President's Executive Order today strengthens the process of the Committee on Foreign Investment in the United States (CFIUS) and will ensure that all appropriate federal agencies rigorously review potential foreign investments with national security implications. The Executive Order makes clear that America remains open to investment, consistent with the protection of our national security."

January 24, 2008
HP-769

**US Financial Sector Pandemic Flu Exercise
Prompts Enhanced Industry Preparations**

Washington- The U.S. Department of the Treasury, the Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (FSSCC), and the Financial and Banking Information Infrastructure Committee (FBIIC) today released the the in-depth results of the FBIIC/FSSCC Pandemic Flu Exercise of 2007.

The report builds off initial test results released in October, providing a thorough examination of the industry's plans during a pandemic outbreak. Results compare industry responses on issues including plans for telecommuting, stockpiling equipment and anti-virus medication, and other continuity measures. Most importantly, exercise results demonstrate that while there may be significant impacts to the financial services sector during a pandemic outbreak, the sector overall will continue to operate and cope with these impacts.

"The results of this report demonstrate the clear need for conducting this exercise," said Treasury Deputy Assistant Secretary Valerie Abend. "Even businesses that had pandemic plans in place found that a global avian flu outbreak poses complex issues and were able to identify areas where more work was needed."

The exercise, conducted between September 24 and October 12, 2007, was the largest pandemic exercise ever held for financial services industry. The Treasury Department, in partnership with FSSCC and FBIIC, and the Securities Industry and Financial Management Association (SIFMA) sponsored the sector-wide pandemic.

The exercise highlighted the need for organizations to include pandemic-specific focus in their overall business continuity planning efforts. At the start of the exercise, more than one-third of participants stated that they had not yet developed pandemic-specific business continuity plans. However, after the exercise 91 percent of participants said they would apply lessons they learned from the exercise to a refinement of their organizations' business continuity plans.

The exercise was specifically designed to stress test the business continuity plans of the more than 2,700 participating organizations. This exercise simulated absentee rates at up to 49 percent across the country. Critical infrastructures that the sector relies on were also stressed resulting in notable service degradation.

By providing an opportunity to test plans, identify systemic risks and critical dependencies on other sectors through this exercise, 99 percent of exercise participants felt that the exercise met its objectives and was useful in assessing their pandemic planning needs. As a result, the exercise provided the participants the opportunity to examine key crisis management issues, foster strategic thinking, and strengthen the sector's overall preparedness.

"The exercise identified a number of issues that can be addressed to further strengthen the sector's resiliency," said George S. Hender, Chairman of FSSCC. "Each organization needs to look at the lessons learned from the exercise and incorporate the appropriate enhancements to their pandemic planning."

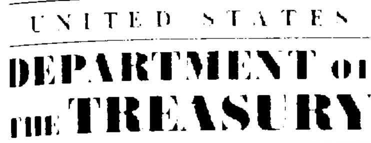
The full After-Action Report of the FBIIC/FSSCC Pandemic Flu Exercise can found at http://www.treasury.gov/offices/domestic-finance/financial-institution/cip/flu.shtml.

About FSSCC:

The Financial Services Sector Coordinating Council for Critical Infrastructure Protection and Homeland Security (www.fsscc.org) is a group of more than 30 private-sector firms and financial trade associations that works to help reinforce the financial services sector's resilience against terrorist attacks and other threats to the nation's financial infrastructure. Formed in 2002, FSSCC works with the Department of Treasury, which has direct responsibility for infrastructure protection and homeland security efforts for the financial services sector, while also serving under the overall guidance of the Department for Homeland Security.

About FBIIC:

The Financial and Banking Information Infrastructure Committee (FBIIC) is chartered under the President's Working Group on Financial Markets and is charged with improving coordination and communication among financial regulators, enhancing the resilience of the financial sector, and promoting the public/private partnership. The Treasury's Assistant Secretary for Financial Institutions chairs the committee.



Office of Critical Infrastructure Protection and Compliance Policy

FBIIC-FSSCC PANDEMIC FLU EXERCISE OF 2007

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06/19/2007	FBIIC-FSSCC Financial Sector Pandemic Exercise Information from September 24 - October 12, 2007
05/24/2007	Treasury to Help Industry Test Pandemic Outbreak Response

Last Updated: January 24, 2008

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 FBIIC-FSSCC 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

January 24, 2008
HP-770

Under Secretary David H. McCormick to Deliver Remarks on Rebalancing the U.S.-China Economic Relationship

Treasury Under Secretary David H. McCormick will deliver remarks Wednesday at the Council on Foreign Relations in New York on rebalancing the U.S.-China economic relationship.

- **What**: Remarks on Rebalancing the U.S.-China Economic Relationship
- **When**: Wednesday, January 30, 8:00 a.m. EST
- **Where:** Council on Foreign Relations
  58 E. 68th Street
  New York, NY
- **Notes**: RSVP required by 12:00 p.m. on Tuesday, January 29 to nypressrsvp@cfr.org
  CFR Press Contact: Nidhi Sinha, 212-434-9460, nsinha@cfr.org
  Camera Crew Entrance: Park Avenue between 67th and 68th Streets

- 30 -

January 24, 2008
2008-1-24-8-46-10-16112

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,515 million as of the end of that week, compared to $71,425 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	January 18, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,515
(a) Securities	14,498	11,991	26,489
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	14,378	5,881	20,259
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	4,246		
(3) SDRs	9,480		
(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)

		Total	Maturity breakdown (residual maturity) 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 [1]				
(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)	71,515
--currencies in SDR basket	71,515
--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.

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.

January 24, 2008
HP-771

Deputy Treasury Secretary Robert Kimmitt to Participate in Media Conference Call on Sovereign Wealth Funds

Deputy Treasury Secretary Robert Kimmitt will participate in a *Foreign Affairs* magazine media conference call on sovereign wealth funds and the world economy. He will discuss his article in the January/February 2008 issue of *Foreign Affairs*, "Public Footprints in Private Markets: Sovereign Wealth Funds and the World Economy." Deputy Secretary Kimmitt's article is available at: http://www.foreignaffairs.org/20080101faessay87109/robert-m-kimmitt/public-footprints-in-private-markets.html

- **What:** Media Conference Call on sovereign wealth funds and the world economy
- **When:** 2:00 p.m. (EST) Monday, January 28
- **Dial-In**: U.S. Callers: 1-800-853-3893
  International Callers: 1-334-323-7224
  Passcode: Kimmitt
- **Note:** Media interested in participating MUST RSVP to Nadine Apelian at NYpressRSVP@cfr.org or 1-212-434-9677 by 11:00 a.m. on Monday, January 28.

- 30 -

January 25, 2008
HP-772

Assistant Secretary Ryan to Speak

Treasury Assistant Secretary for Financial Markets Anthony W. Ryan will be a featured speaker next week at the World Research Group's annual conference on market liquidity in New York City. His remarks will focus on the importance of liquidity in capital markets and risk management.

Who
Assistant Secretary for Financial Markets Anthony Ryan

What
Remarks on Liquidity of Financial Markets

When
Monday, January 28, 2:15 p.m. EST

Where
World Research Group's Liquidity 2008 Conference
Bridgewaters
11 Fulton Street
New York, N.Y.

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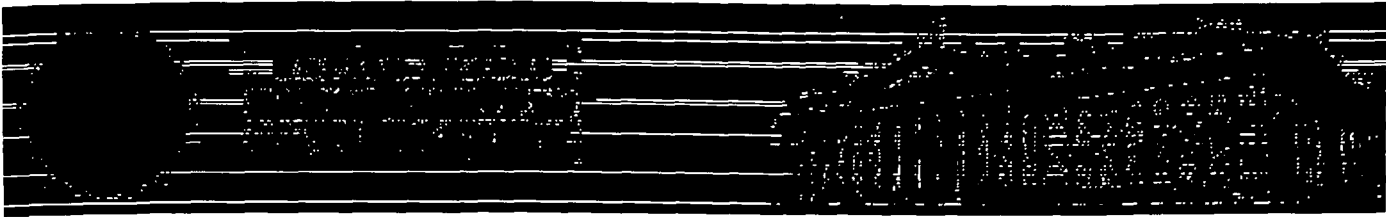
January 25, 2008
hp-773

Fact Sheet: Examples of How the Economic Growth Package will Benefit Americans

Examples of How the Economic Growth Package will Benefit Americans.

REPORTS

- Fact Sheet Examples



FACT SHEET:

EXAMPLES OF HOW THE ECONOMIC GROWTH PACKAGE WILL BENEFIT AMERICANS

Married with children:

1) Married couple with two children[1], earned income of $4,000, no federal income tax paid.

- Individual rebate = $600
- Child tax credit = $600

TOTAL = $1,200

2) Married couple with two children, earned income in excess of $3,000, AGI = $45,000, federal income tax is $323.

- Individual rebate = $600
- Child tax credit = $600

TOTAL = $1,200

3) Married couple with two children, AGI = $48,000, federal income tax is $773.

- Individual rebate = $773
- Child tax credit = $600

TOTAL = $1,373

4) Married couple with two children, AGI = $80,000, federal income tax paid in excess of $1,200.

- Individual rebate = $1,200
- Child tax credit = $600

TOTAL = $1,800

5) Married couple with two children, AGI = $160,000, federal income tax paid in excess of $1,200.

- Individual rebate = $1,200
- Child tax credit = $600
- Phaseout reduction = ($500) [5% x ($160,000 - $150,000) = $500]

TOTAL = $1,300

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[1] All children referenced in the examples are qualifying children for purposes of the child tax credit.

Head of household with children:

1) Single parent with two children, earned income of $4,000, no federal income tax paid.
   - Individual rebate = $300
   - Child tax credit = $600

     TOTAL = $900

2) Single parent with two children, earned income in excess of $3,000, AGI = $38,000, federal income tax is $433.
   - Individual rebate = $433
   - Child tax credit = $600

     TOTAL =$1,050

3) Single parent with two children, AGI = $60,000, federal income tax paid in excess of $600.
   - Individual rebate = $600
   - Child credit = $600

     TOTAL =$1,200

4) Single parent with two children, AGI = $90,000, federal income tax paid in excess of $600.
   - Individual rebate = $600
   - Child credit = $600
   - Phaseout reduction = ($750) [5% x ($90,000 - $75,000)]

     TOTAL = $450

Married, no children:

1) Married couple with no children, earned income of $4,000, no federal income tax paid.
   - Individual rebate = $600

2) Married couple with no children, earned income in excess of $3,000, AGI = $20,000, federal income tax is $930.
   - Individual rebate = $930

3) Married couple with no children, AGI = $25,000, federal income tax is $1,430.
   - Individual rebate = $1,200

4) Married couple with no children, AGI = $160,000, federal income tax paid in excess of $1,200.
   - Individual rebate = $1,200
   - Phaseout reduction = ($500) [5% x ($160,000 - $150,000)]

     TOTAL = $700

Single, no children:

1) Individual with earned income of $4,000, no federal income tax paid.
   - Individual rebate = $300

2) Individual with earned income in excess of $3,000, AGI = $10,000, federal income tax is $125.
   - Individual rebate = $300

3) Individual with AGI = $16,000, federal income tax is $725.
   - Individual rebate = $600

4) Individual with AGI = $80,000, federal income tax paid in excess of $600.
   - Individual rebate = $600
   - Phaseout reduction = ($250) [5% x ($80,000 - $75,000)]

     TOTAL = $350

January 28, 2008
HP-774

Treasury Assistant Secretary for Financial Markets
Anthony W. Ryan
Remarks at the World Research Group Liquidity

New York City- Good afternoon. Secretaries of the Treasury, from Alexander Hamilton to Henry Paulson, have acknowledged the value of liquid, efficient capital markets. Hamilton understood that the United States' Revolutionary War debt was "the price of liberty" and to lay the groundwork for functioning, vibrant capital markets, our young nation must establish a globally respected sovereign debt market. Over 200 years later, that vision continues to deliver economic benefits. Similarly, Secretary Paulson has stated that capital markets are "the lifeblood" of the economy. Today's conference on liquidity focuses on one of the vital signs of that lifeblood, and I appreciate the opportunity to share my thoughts with you.

Elements of Liquidity

In assessing liquidity, we must begin by recognizing the dramatic changes that have occurred in capital markets in recent years. Financial market innovation and broadening investment horizons – both from a geographic and asset class perspective – have led to an ever increasing expansion of investment strategies and instruments. Cash and spot markets have been seamlessly integrated with derivatives markets. With innovation and interrelated markets have come immense pools of capital ready to be deployed – and at times, withdrawn - which reflect the vastly fluid nature of our global financial markets.

Today, I would like to focus my remarks not just on the benefits and challenges resulting from the incoming or receding tides of liquidity, but also their distinct properties and transmission mechanisms. While the traditional characteristics of liquidity are often assumed to be fairly well understood, the dynamic nature of its underlying properties warrants further evaluation.

Furthermore, the channels of accessing or deploying liquidity - be it via the financial marketplace through credit markets, derivatives or structured vehicles - are evolving rapidly. The same can be said about the breadth of alternative sources of liquidity which includes hedge funds, pension funds, and sovereign wealth funds. Such developments have important consequences for all market participants.

Broadly defining and understanding liquidity is therefore critically important. There are real economic returns associated with enhancing liquidity as it vitalizes capital markets. At the same time, market participants can not be myopic and focus just on returns. Market participants must also focus on risks. By better understanding the nature of liquidity, participants are also better positioned to address the difficult challenge of managing one element of risk: liquidity risk. So, how best to proceed?

Water as an Analogy

A healthy functioning financial market implies an efficient flow of liquidity. As we seek to improve the evaluation of liquidity flows, we can expand our knowledge by reviewing the science of liquids as it serves as an interesting analogy. Natural science offers us a perspective on liquidity – through the lens of the chemistry and the physics of liquids.

Liquids possess numerous properties with which we are familiar. Take for example the most familiar liquid: water. Hydrologists can describe the importance and presence of water, its properties and various states, and how it transitions as it moves through the water cycle.

Water is essential for survival. We often hear of the absence of water leading to drought and death. Alternatively, an abundance of water may not be a panacea. Liquidity managers can relate, as no trader wants to be long excess funds at the end of days when there's no bid or short funds when there are no offers.

Understanding the underlying physical properties of water requires consideration of various external forces, be it temperature, pressure or interactions with other liquids. The same can be said for market liquidity as it is affected by multiple exogenous factors such as regulatory limitations or investment constraints.

Water also exists in different states. A glacier may harbor an abundance of fresh water yet tapping the resource requires ingenuity and special mechanisms to penetrate the solid state. Similarly, additional liquidity is brought to borrowers outside the traditional lending channels via securitization.

Science also teaches us to appreciate the implications of transitions between states. Often, such transformations are not uniformly even. For example, when water transitions from its liquid state to a solid as ice is formed, the process is extremely abrupt from a molecular standpoint. We have certainly witnessed the corresponding precipitous changes in market liquidity recently.

The Fluid Properties of Financial Markets

Just as scientists and engineers must understand and evaluate the nature of liquids, the same is true for financial market participants with respect to liquidity. It too, is found in varying amounts and different states. It too, possesses dynamic properties and transitions. While our textbooks may have described this as a virtuous cycle, it can also be experienced as a vicious circle.

In capital markets, liquidity is often defined as the degree to which an asset or security can be bought or sold without significantly affecting the asset's price. It may also be perceived as the ability to convert an asset to cash quickly.

High levels of trading activity, narrow bid/ask spreads, low transaction costs, and similar, non-discrete price movements characterize a highly liquid market. The clear availability and activity of market makers, the incentive to take on risk, and the presence of effective clearance and settlement systems support efficient capital markets. In addition, complementary derivative instruments can help to lower costs associated with risk transfer and attract additional investors to a market, thus enhancing liquidity.

Securing the benefits of liquid capital markets is challenging as conditions are anything but static. Capital markets – including even U.S. Treasuries - face varying degrees of liquidity. This has been particularly true over the past several months.

Last summer, liquidity conditions reached a critical point. The plentiful flow of liquidity that fueled a boom in borrowing and leverage across asset classes -- from home mortgages to leveraged buyouts to private equity simply vaporized -- like water into steam. Despite market participants' continuous monitoring of the conditions in the financial environment – be it the worsening of mortgage lending standards, the expansion of even more complex instruments and structures, or the application of more leverage – the resulting transition in liquidity states was nonetheless sudden and took most market participants by surprise.

Not unexpectedly, the consequences were dramatic. Certain financial sectors were materially compromised by the inability of participants to access liquidity – even when such liquidity was widely present. This was a result of a decrease in confidence as doubts arose about future financial conditions, which in turn, delivered devastating blows to both users and providers of liquidity.

For example, short term funding markets essentially froze. Inter-bank funding spreads to future expected Fed policy rates rose to unprecedented heights, reflecting the tremendous friction and tenuous ties among counterparties. Mortgage origination and other asset securitization fell dramatically, exacerbating challenges in the housing sector. Given the interconnectedness of our capital markets, other stresses predictably emerged which further impeded liquidity: algorithmic trading ceased, financial institutions grappled with valuing assets, and balance sheets

came under pressure.

The lack of liquidity led to unprecedented actions by major central banks and tremendous strains in the financial sector. We continue to see the results of these strains play out. Since last August, we've seen the write off over $153 billion in the financial sector, the downgrading of numerous issuers and structures, loss of over $1 billion to guarantee over $18 billion of assets held in money market funds, and the consolidation of over $136 billion in SIV assets.

Liquidity Sources and Cycles

However, this period of write-downs and recapitalizations is not a permanent state. It is transitory – another phase of the cycle and in the long term, likely to be beneficial. Just as water can be found in aquifers, new pools of liquidity are being formed and tapped, resulting in a gradual reintermediation of capital markets.

Over the past nine weeks, over $95 billion has been raised in the capital markets. We have seen equity raised by the housing Governments Sponsored Entities (GSEs), and capital injections in financial institutions by various sovereign wealth funds. We have also witnessed entries by other investors with strong balance sheets and credits into capital reliant businesses such as banks, and monoline insurance companies.

Recently, we have seen a gradual reduction in key benchmark spreads. Commercial paper markets, even asset back commercial paper markets, have seen greater issuance and lower funding rates. This is certainly not an "all clear" signal, but perhaps the beginning of the transition to an improved state of liquidity. This process will take more time. Confidence returns when investors validate their assumptions - not just on future returns, but equally on risks. It is on the latter dimension where a great deal of reassessment is occurring.

One reason investor confidence is being hit so hard, is that many investors were sanguine over the last few years. This sanguine state – perhaps even over-confidence- was a result of many factors. But recent events underscore the importance of the need for strong market discipline, prudent regulatory policies, and robust risk management. Investors must appreciate risk – in its myriad dimensions and seek to better identify, assess, and manage it. Successfully doing so requires continuous evaluation from multiple perspectives, and humility to know the limitations of any single or even comprehensive assessment of risk.

More transparency, disclosure and independent analysis can increase investor confidence. We have seen some positive developments in recent weeks, particularly in the U.S., but more must follow. As the global capital markets continue through this transition, some revaluations will be gradual, while others may be more dramatic. As a result, we are likely to witness continued volatility.

Importantly, the markets' underlying infrastructures, and processes have remained intact. Trading, clearing and settlement systems have each responded well despite tremendous strains and massive volumes. However, we must not take this for granted. Continued efforts to enhance such systems serve to prepare our markets for future challenges.

Catalysts for Evolution

In the face of important changes related to global capital market liquidity, market participants and public policies must evolve. As market leaders, we need to possess both judgment and confidence: judgment to recognize when changes are necessary and the confidence to make those changes.

Addressing market challenges must be done thoughtfully. This task is a shared responsibility between the private and public sectors. Consider liquidity risk management. Firms have learned that the properties associated with liquidity may be fleeting – and that additional methodologies to assess and manage liquidity exposures may be warranted to avoid such strains in the future. Both regulators and senior management of financial firms recognize that efforts to enhance comprehensive stress testing, valuation and hedging capabilities, as well as management information and metrics for evaluating and managing liquidity risk are

invaluable.

Market participants should continue to appreciate the benefits of diversified sources of liquidity, including the benefits of larger reserves, complementary sources and potential global suppliers. Equally important, participants must appreciate that risks must be assessed to each of these and that these assessments and relationships can change, especially during periods of market stress.

Markets, practices and policies will need to evolve. Institutions, structures, and strategies must do so as well. The good news is that our capital markets have a rich history of adapting.

Both policymakers and market participants must review current practices. Encouraging issuers to enhance disclosure, financial institutions to be well capitalized, and investors to conduct independent due diligence are logical outcomes of such reviews.

The President's Working Group on Financial Markets, which Secretary Paulson chairs and includes the Chairmen of the Federal Reserve, the Securities and Exchange Commission, and the Commodity Futures Trading Commission, has begun a comprehensive review of such policy issues. We are also working with the G7 and the Financial Stability Forum to review issues related to the recent challenges in the global financial markets.

These complementary reviews are focused on issues that range from enhancing risk management including liquidity and counterparty credit risk, to market infrastructure, to reporting and disclosure, and to ratings and investor practices.

While we address these intermediate term issues, our short term focus is to minimize the spillover effects of the current capital markets challenges to the real economy. In addition, we are also engaged in a strategic endeavor. We are developing a blueprint that outlines a more optimal regulatory framework for our financial sector. Given the current fragmented structure and a global financial marketplace that is constantly evolving, we need to ensure that our financial marketplace is well positioned to compete and deliver future benefits to our economy.

Equilibrium

Economies derive much of their strength from robust and diverse capital markets. As market participants, each of us must contribute to ensure the integrity, openness and competitiveness of our markets. The natural byproduct of such conditions is liquid, efficiently functioning markets. A better understanding of global liquidity, including its capricious properties, its abundance, its hidden reservoirs, its dynamic nature, and its transitional characteristics – enhances economic growth and improves risk management. This in turn, serves to bolster investor confidence.

All stakeholders – be they providers of liquidity, such as investors, or users of liquidity, such as issuers, – have a direct interest in facilitating liquidity in capital markets. But the underlying drivers for such optimal operating conditions may not always be present. As we have seen recently, liquidity can be abundant and encourage imprudent risk taking. Or it can be scarce and create broad based risk aversion.

There is no ideal quantity of liquidity. We live with cycles and must learn to live with a range of market conditions. We need to attempt to understand the underlying drivers of that liquidity. But even with such examination, the ultimate truths may not be readily borne out.

The famed Russian physicist George Gamow once noted that the picture of molecular motion in liquids is "unpleasant and untidy". This is somewhat of a fitting description of liquidity conditions in financial markets over the last six months. Rather than attempt to attain some ideal level of liquidity in markets, we should strive to enhance liquidity, with the full knowledge that markets – like liquids – are fickle in nature and difficult to fully quantify – or even qualify in certain states or periods.

In addition to efforts to enhance market liquidity, we should seek to strengthen market discipline and participants' awareness of risks. Ultimately, albeit at times slowly, market discipline and prudent regulatory policies serve to recalibrate capital markets. Eventually such efforts bring future benefits: greater market depth, more trading volume, larger flows, tighter spreads, lower costs, less volatility, better price discovery, more capital, and an increasingly diverse investor base.

Conclusion

Liquidity is a vital sign of capital markets. Robust capital markets possess efficient flows of liquidity, which in turn, facilitate economic growth. Its fluid nature is in fact beneficial as it enables capital to flow to ever higher and better uses. Its presence stimulates competition and innovation -- enabling not just economic viability, but vitality.

At the U.S. Treasury Department, encouraging open capital markets, addressing both the near term and strategic challenges, and doing all we can to ensure high quality, competitive and orderly capital markets remain our goals. We encourage the private sector to do the same.

Thank you.

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January 28, 2008
HP-775

Treasury Announces Market Financing Estimates

Washington- Treasury announced its current estimates of net marketable financing today for the January – March 2008 and April – June 2008 quarters:

- Over the January – March 2008 quarter, the Treasury expects to borrow $156 billion of net marketable debt, assuming an end-of-March cash balance of $25 billion. The current estimate is $23 billion higher than announced in October 2007. The increase in borrowing is primarily the result of lower receipts and lower net issuances of State and Local Government Series securities.
- Over the April – June 2008 quarter, the Treasury expects to pay down $122 billion of net marketable debt, assuming an end-of-June cash balance of $45 billion. This projection has not been adjusted for the estimated impact of the stimulus package currently under consideration.

During the October – December 2007 quarter, Treasury borrowed $87 billion of net marketable debt, finishing with a cash balance of $57 billion at the end of December. In October 2007, Treasury announced net marketable borrowing of $68 billion, assuming an end-of-December cash balance of $45 billion. The increase in borrowing was primarily the result of lower receipts and adjustments in cash balances.

Since 1997, the average absolute forecast error in net borrowing of marketable debt for the current quarter is $12 billion and the average absolute forecast error for the end-of-quarter cash balance is $9 billion. Similarly, the average absolute forecast error for the following quarter is $32 billion and the average absolute forecast error for the end-of-quarter cash balance is $11 billion.

Additional financing details relating to Treasury's Quarterly Refunding will be released at 9:00 a.m. on Wednesday, January 30.

-30-

REPORTS

- Sources and Uses Reconciliation Table

Sources and Uses Reconciliation Table								
			Financing					*Memo*
		Financing Need	Marketable Borrowing	All Other Sources	Total	Change in Cash Balance	*End-Of-Quarter Cash Balance*
Quarter	*Announcement Date*	(1)	(2)	(3)	(4) = (2) + (3)	(5) = (4) - (1)	(6)
Oct - Dec 2005	**Actual**	**97**	93	**6**	**98**	**1**	37
Jan - Mar 2006	**Actual**	**173**	**158**	**(14)**	**144**	**(28)**	**8**
Apr - Jun 2006	**Actual**	**(137)**	**(92)**	**(7)**	**(99)**	**38**	**46**
Jul - Sep 2006	**Actual**	**19**	**45**	**(19)**	**26**	**6**	**52**
Oct - Dec 2006	**Actual**	**70**	**42**	**6**	**48**	**(21)**	**31**
Jan - Mar 2007	**Actual**	**159**	**126**	**9**	**134**	**(25)**	**6**
Apr - Jun 2007	**Actual**	**(153)**	**(139)**	**5**	**(133)**	**19**	**25**
Jul - Sep 2007	**Actual**	**35**	**105**	**(20)**	**85**	**50**	**75**
	Memo: Forecast Revision						
Oct - Dec 2007	**October 29, 2007**	**85**	**68**	**(13)**	**55**	**(30)**	**45**
	Actual	**91**	**87**	**(14)**	**73**	**(18)**	**57**
	Memo: Forecast Revision	6	19	(1)	18	12	12
Jan - Mar 2008	**October 29, 2007**	**142**	**133**	**(11)**	**122**	**(20)**	**25**
	January 28, 2008	**169**	**156**	**(18)**	**137**	**(32)**	**25**
	Memo: Forecast Revision	27	23	(7)	15	(12)	0
Apr - Jun 2008	**January 28, 2008**	**(155)**	**(122)**	**(13)**	**(135)**	**20**	**45**

Notes: All data reported on a cash basis

January 28, 2008
HP-776

Treasury Assistant Secretary for Economic Policy
Phillip Swagel
Statement for the Treasury Borrowing Advisory Committee of the
Securities Industry and Financial Markets Association

Washington- Economic growth appears to have slowed in late 2007, and is likely to remain sluggish through the first half of 2008. Labor market conditions softened notably in December, as job growth slowed and the unemployment rate jumped to 5.0 percent. Core inflation has remained contained, even as a pickup in energy prices boosted headline inflation at the end of the year. Against this background, the bipartisan tax relief proposal agreed to by the Administration and House leadership has the potential to provide meaningful and well-timed support for economic activity in mid-2008 and into 2009.

Data already in hand suggest that Q4 GDP moderated substantially from growth of nearly 4 and 5 percent in Q2 and Q3, respectively (the first read on Q4 GDP data will be released on Wednesday, January 30). Slower growth of both consumption and investment appear to have offset continued support from exports and government purchases. The December retail sales report points to a slower pace of consumer spending, and housing market indicators suggest that residential investment posted another substantial decline in the fourth quarter. Shipments of core capital goods through November point to a modest pace of spending on business investment in the fourth quarter. (Data on orders and shipments of durable goods in December to be released on Tuesday, January 29 will provide further evidence on the trajectory of business spending.)

Exports remain a source of strength, with exports of goods and services up by 13 percent over the 12 months ending in November. Despite the solid export performance, recent increases in imports, including a higher volume of oil imports, suggest that the contribution of net exports to real GDP will be smaller than the 1.4 percentage point boost seen on average in the second and third quarters.

Early data for the first quarter of 2008 are mixed. Initial claims for state unemployment insurance dropped back to just over 300,000 per week after having risen above 350,000 per week in November and December, and consumer sentiment rebounded in the first half of January, recouping nearly all of the loss recorded over the previous two months. At the same time, regional measures of manufacturing activity point to a weakening factory sector, and homebuilder confidence remains close to a record low. Private forecasters generally expect growth to remain sluggish, with consensus forecasts around 1-1/2 percent for the first half of 2008.

While the economy is expected to continue to grow, the risks of a broader slowdown have increased. Financial markets have deteriorated considerably since the start of the year and credit conditions for households and businesses remain tight. In the first three weeks of January, U.S. equity markets gave up all of last year's gains; since the end of October 2007, total equity market capitalization has fallen about $3 trillion. Together with declining home prices, the drop in household wealth will have an adverse effect on consumer spending and business investment.

Energy costs remain a concern for households and businesses and a downside risk for growth. The retail price of gasoline remained about $3 per gallon in the most recent weekly statistics, about 85 cents higher than a year earlier. Reflecting expectations that economic growth and thus oil demand will ease in early 2008, oil prices have retreated somewhat in recent weeks, with the one-month futures price for West Texas Intermediate crude down by about $10 per barrel from its early January peak of just under $100 a barrel.

Higher energy prices do not appear to have appreciably boosted underlying inflation. Core consumer prices (which exclude food and energy) rose by 2.4 percent over the year ended in December, compared to the year-earlier pace of 2.6 percent. The spread between yields on five-year inflation-protected government securities and five-year constant maturity government securities, often used as a measure of inflation expectations, suggests that financial market participants look for inflation just above 2 percent, consistent with a retreat in headline inflation going forward. As the impact of higher energy prices on overall inflation wanes, workers who have seen real wage gains erased by energy-led increases in inflation will benefit. Nominal wage growth has been solid, and slower headline inflation would imply a resumption of real wage gains.

The housing market is likely to remain weak well into 2008. Inventories of unsold homes, both new and existing, remain substantially above levels that were typical before or during the housing sector boom. The inventory of unsold new homes rose to 9.6 months of supply in December; inventories averaged just above a 4 month supply from 2000 to 2005. The inventory overhang will weigh on both housing prices and construction. Nationwide, home prices are roughly flat over the past year, with some regions that experienced the highest house price appreciation during the boom now seeing outright price declines. Residential investment has subtracted nearly a full percentage point from annualized GDP growth during each of the previous four quarters and looks to remain a drag on the economy into 2008. Housing starts totaled 1.006 million at an annual rate in December, down more than 38 percent from a year earlier, and are at their lowest level since May 1991. Permits for the single-family sector remain below starts, indicating continued future weakness in residential investment. Homebuilder optimism, which is closely correlated with homebuilding activity, is still near a record-low level.

The housing market slump and broader economic weakness has contributed to an increase in mortgage delinquencies and foreclosures. New foreclosures jumped to 0.8 percent of all loans serviced in 2007Q3, according to a survey by the Mortgage Bankers Association, totaling slightly more than 350,000 loans in the Q3 survey alone. Subprime adjustable rate mortgages (ARMs) are largely responsible for this trend, but an increase in prime ARM foreclosure starts suggests that credit difficulties are broader than just subprime. Overall, about 1.3 percent of all mortgages serviced in the Mortgage Bankers survey were more than 90 days delinquent in 2007Q3, amounting to nearly 575,000 loans. Foreclosures are expected to rise further as an estimated 1.8 million U.S. owner-occupied subprime mortgages face interest rate resets in 2008 and 2009.

The Administration has taken steps to help prevent avoidable foreclosures and minimize the impact of the housing downturn on markets and the economy. Through FHASecure, the Administration has expanded affordable mortgage options; last fall, the Administration encouraged the creation of the HOPE NOW alliance to reach and help struggling homeowners. These efforts have resulted in progress. According to HOPE NOW, the industry assisted 370,000 homeowners in the second half of 2007, and mortgage servicers modified subprime loans during the fourth quarter at a rate three times faster than in the third quarter.

Working with Congress, the Administration has also temporarily eliminated taxes on forgiven mortgage debt so homeowners facing difficult mortgage situations do not also face adverse tax consequences. The Administration has urged Congress to pass legislation to modernize the Federal Housing Administration, allow states to issue tax-exempt bonds to fund refinancing programs, and undertake comprehensive reform of the housing government sponsored enterprises.

On Thursday, January 24, the President and the bipartisan leadership of the House of Representatives reached agreement on a package of personal and business tax relief to support economic growth while credit and housing markets continue to adjust. Together, the proposal will inject about $150 billion into the economy in 2008, creating over half a million additional jobs by the end of this year. In sum, growth is expected to continue, albeit at a modest pace and with increased downside risks. Rapid enactment of the bipartisan fiscal package would support growth and help to ensure continued economic expansion and job creation in 2008.

January 28, 2008
2008-1-28-15-50-23-15275

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,603 million as of the end of that week, compared to $71,515 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	January 25, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,603
(a) Securities	14,564	11,939	26,503
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	14,446	5,885	20,301
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	4,255		
(3) SDRs	9,502		
(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				
(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)	71,603
--currencies in SDR basket	71,603
--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.

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.

January 30, 2008
HP-777

Treasury Assistant Secretary for Financial Markets Anthony W. Ryan February 2008 Quarterly Refunding Statement

Washington - We are offering $22.0 billion of Treasury securities to refund approximately $54.5 billion of privately held securities maturing on February 15 and to pay down approximately $32.5 billion. The securities are:

- A new 10-year note in the amount of $13.0 billion, maturing February 15, 2018;
- A new 30-year bond in the amount of $9.0 billion, maturing February 15, 2038

These securities will be auctioned on a yield basis at 1:00 p.m. EST on Wednesday, February 6, and Thursday, February 7, respectively. Both of these auctions will settle on Friday, February 15. The balance of our financing requirements will be met with weekly bills, monthly 2-year and 5-year notes, the March 10-year note reopening and the April 5-year TIPS offering and 10-year TIPS reopening.

Treasury expects to issue cash management bills in February, March, and April. Some of these cash management bills may be longer-dated than those recently issued. Such issuance of longer-dated cash management bills would be in response to seasonal fluctuations in cash balances, volatility associated with the timing of tax refunds, and the increased use of electronic payments versus check payments.

Financing Needs in Fiscal Year 2008 and Bill Market Liquidity

Bill financing is Treasury's primary means of addressing unexpected or seasonal fluctuations in borrowing needs and a highly liquid Treasury bill market reduces the government's interest expense over time, provides flexibility and promotes more efficient capital markets. Over the past six years, Treasury bills as a percentage of our overall portfolio have fallen from 27 percent to 22 percent. We plan to increase bill issuance amounts in the coming year. Doing so will enhance liquidity, improve flexibility (given greater volatility in short-term Treasury cash balances), and could increase outstanding bills as a percentage of the portfolio.

The fiscal year 2008 outlook, even absent the enactment of a fiscal stimulus package, potentially calls for a higher net marketable borrowing requirement resulting from larger base line deficit projections and potential reductions in issuance of non-marketable securities to states and local municipalities. Consequently, in addition to expected increases in bill issuance, Treasury may raise nominal coupon issuance in the coming months to address these larger net marketable borrowing needs.

Financing considerations related to potential Federal Reserve security redemptions

While the decisions of the Federal Reserve are independent of the Department, Treasury may also need to raise bill issuance sizes or issue additional cash management bills to offset cash shortfalls should the Federal Reserve determine additional security redemptions are necessary. Treasury will adjust such issuances as transparently as possible.

Financing considerations related to potential economic growth package

Treasury is also contemplating the optimal method of financing should Congress pass an economic growth package. The nature of the financing will largely be dictated by the scope and timing of any such package. Based on current forecasts, additional borrowing needs can be addressed through changes in issuance sizes of the existing menu of securities, including cash management bills. If Treasury needs to make any additional changes to the auction calendar, ample notice will be provided in a transparent manner to market participants.

New Treasury Auction System

As stated in the November 2007 Quarterly Refunding statement, Treasury's enhanced auction system is expected to be implemented in the first half of 2008. We remain on schedule and will continue to keep market participants apprised of progress related to the new auction system.

Minimum Auction Purchase Denomination

Coinciding with the implementation of the new Treasury auction system and as discussed in the November 2007 quarterly refunding statement, Treasury has decided to lower the minimum purchase amount in Treasury auctions. Subsequent to the change, investors will be able to purchase marketable securities in a minimum denomination of $100.

This change will broaden distribution, improve individual investor access to Treasury marketable securities, and lower issuance costs to Treasury.

In addition, new $100 denominational notes and bonds auctioned under the new system will be available for stripping shortly thereafter. We will provide information on the exact date following the implementation of the new Treasury auction system.

Current Market Environment

Given current market conditions coupled with lower interest rates, Treasury encourages private sector efforts to develop additional methods to minimize the likelihood or impact of systemic fails so that overall market liquidity is not negatively impacted by Treasury repo financing. Addressing this issue in a proactive manner would benefit all stakeholders in the market and enhance market liquidity.

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, April 30, 2008.

- 30 -

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January 30, 2008
HP-778

Report to The Secretary Of The
Treasury from The Treasury Borrowing Advisory Committee
Of The
Securities Industry And Financial Markets Association

January 29, 2008

Dear Mr. Secretary:

Since the Committee's previous meeting in late October, credit conditions have remained uncertain and the outlook for the economy has become more negative. Expectations for growth in the first half of 2008 have fallen from 1.7% to 1.1% and two primary dealers now expect a recession as a base case for their economic outlook. Elsewhere the odds of a recession have varied between 30 and 50%. Housing continues to be a significant drag on the economy and, although that has largely been offset by a positive contribution from the improvement in the U.S. trade balance, the secondary risk of a drop in consumer spending, combined with some evidence of a weaker labor market, justify heightened concern about the growth outlook.

Inflation has remained somewhat elevated due to price increases for food and energy. However, the slowing economic growth has had a moderating effect on a variety of other consumer prices, especially for goods and services related to housing. Core consumer price measures are rising in a 2% to 2½% range. Chances favor some improvement in these measures amid tight financial conditions, softer home prices and higher unemployment, but the falling U.S. dollar and elevated commodity costs may keep alive concerns about inflationary pressures.

The steady tightening in financial conditions led the Federal Reserve to lower the Federal funds target by 75 basis points to 3½% earlier this month. Policymakers acknowledged that the more restrictive credit environment had increased the downside risks to the economy. Futures markets anticipate further reductions in the policy rate ahead. Expectations for a lower funds rate have contributed to a steeper yield curve with short- to intermediate-term yields having declined the most. Yields across the U.S. Treasury curve are near the lowest levels in a number of years.

The Federal government's budget deficit narrowed in fiscal year 2007. But the pace of revenue collection has eased and economically sensitive spending has firmed in recent months, suggesting a larger fiscal deficit in 2008. Enactment of an economic stimulus package would widen still further the budgetary shortfall.

The Committee was presented with four charges by the Treasury. After a short conversation, we chose to begin with the second charge where the Committee was asked to address their views on the lead/lag effects of revenues and outlays on Treasury debt issuance in various economic cycles, and the potential issuance patterns Treasury should consider given those trends.

One member prepared a presentation on this topic and began the discussion by citing the cyclical nature of tax receipts, suggesting that over three-quarters of the traditional cyclical deficit swing occurs on the revenue side. The observation was made that the revenue weakness occurs coincident with the economic downturn, and continues for a period of many months into the ensuing recovery.

One member noted that CBO projections (as well as others) tended to fall short of

the experienced deficits in economic downturns. This member, as well as other Committee members, suggested that the volatility of budgetary balances during these periods should influence Treasury to begin planning for potentially larger borrowing requirements in the very near future.

This member then went on to suggest that within individual non-withheld receipts there is some risk of significant decline. These are driven by capital gains and irregular sources of income, and have risen markedly over the prior few years, and consequently were at risk of deterioration within an economic slowdown and/or equity market correction.

In addition, corporate profit margins are likely to weaken over the coming months, suggesting a potential tangible fall-off in corporate tax receipts. One member suggested, however, that the data on individual and corporate tax receipts shows modest signs of degradation at this point, but pointed out that the March and April final settlements would be more illustrative.

Hence, with an uncertain set of revenue forecasts, and the implementation of an impending fiscal stimulus package, this member and others cited the need for Treasury to consider utilizing various forms of increased borrowing alternatives.

The Committee followed this discussion by tackling the Treasury's first charge which was to solicit our views on future debt issuance in light of these and other issues.

As discussed earlier, members noted that the fiscal position of the Federal government has already shown significant signs of deterioration. For example, tax receipt growth in the first quarter of the fiscal year was under 5% after posting three solid years of strong double-digit growth. This weakness was most pronounced in non-withheld personal income taxes which actually declined slightly over the period and corporate taxes which increased only marginally. At the same time Federal expenditures, which were artificially subdued during the end of the previous fiscal year due to the government running on a continuing resolution, increased markedly to almost 9% year-on-year. Consequently, the budget deficit has weakened materially and is now expected by many private forecasters to be in a range of $325 billion to $400 billion for fiscal year 2008, depending upon the size and composition of proposed fiscal stimulus packages. This is a sharp increase from the 2007 fiscal deficit of $164 billion.

Several members of the Committee noted that the current financing structure and calendar afforded the Treasury with plenty of flexibility over the near-to-intermediate term. There has already been, for example, an increase in Treasury bill issuance such that the outstanding level of Treasury bills has grown from approximately $800 billion to a little more than $1 trillion. Growth in the Treasury bill market was very much welcomed by the financial markets as uncertainty in the credit markets has significantly increased the demand for safe and liquid securities such as Treasury bills and short-maturity notes.

One member noted that the recently enacted TAF program by the Federal Reserve accounted for approximately $80 billion of the increase in Treasury bills outstanding.

Another member noted that the relatively tepid demand for non-marketable SLGs by the Municipal Market has marginally exacerbated the pressure on issuance of marketable securities. Most members agreed that the recent under-performance of Municipal Bonds suggests that the demand for SLGs would remain tepid over the near future.

The combination of these issues, along with the uncertainty surrounding the size of potential stimulus plans, biased most members toward the recommendation that Treasury prepare for the potential need to expand the size, frequency, and perhaps even the reintroduction of issues to its issuance calendar over the coming quarters.

Most members agreed that the Treasury should at first expand issuance across its maturity spectrum and not rely entirely on the expansion of Treasury bill issuance.

During our discussion of this topic, several Committee members noted the growing

difficulties surrounding Treasury's cash management function due to the pending lumpiness of future maturities and the quickly changing revenue and expenditure patterns. It was suggested that the Treasury investigate the potential use of longer-dated cash management bills and/or a buy-back program designed specifically to reduce this problem.

In its third charge to the Committee, the Treasury solicited our views on what steps could be taken to minimize the likelihood or impact of systemic fails in the Treasury repurchase market.

This is, of course, not a new topic for participants in the Treasury and fixed-income markets in general and it is increasingly relevant given the recent decline in the Federal funds rate, which can effectively reduce the cost of fails in the market by short sellers and repo counterparties.

Members discussed many of the potential solutions or mitigating actions such as moral suasion by regulators, encouraging foreign investors to participate in securities lending and other tactics.

It was agreed, however, that the best course of action was to encourage industry groups such as the Treasury Market Practices Group (TMPG) and the Securities Industry and Financial Markets Association (SIFMA) to work independently and/or together to present solutions to mitigate these issues.

In the final section of the charge, the Committee considered the composition of marketable financing for the January-March quarter to refund the approximately $54.6 billion of privately held notes and bonds maturing on February 15, 2008, as well as the composition of marketable financing for the remainder of the quarter, including cash management bills, as well as the composition of marketable financing for the April-June quarter.

To refund $54.6 billion of privately held notes and bonds maturing on February 15, 2008 the Committee recommended a $14 billion 10-year note due February 15, 2018 and a $9 billion of the 30-year bond due February 15, 2038. For the remainder of the quarter, the Committee recommended $25 billion 2-year notes in February and March, a $15 billion 5-year in February and March, and a $10 billion re-opening of the 10-year note in March. The Committee also recommended a $25 billion 31-day cash-management bill maturing March 17, 2008, a $20 billion 14-day cash management bill also maturing March 17, 2008.

For the April-June quarter, the Committee recommended financing as found in the attached table. Relevant figures included three 2-year note issuances monthly, three 5-year note issuances monthly, a 10-year note issuance in April followed by a re-opening in June, a 30-year bond re-opening in May, as well as a 10-year Tips re-opening in May, and a 5-year TIPS opening later that same month.

Respectfully submitted,

Keith T. Anderson,
Chairman

Rick Rieder
Vice Chairman

Attachments (2)

REPORTS

- Table Q1 08
- Table Q2 08

US TREASURY FINANCING SCHEDULE FOR 1st QUARTER 2008
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY
4-WEEK AND 3&6 MONTH BILLS	12/27	12/31	1/3	17.00	20.00	19.00	59.00	-3.00
	1/3	1/7	1/10	15.00	19.00	18.00	54.00	-2.00
	1/10	1/14	1/17	9.00	20.00	18.00	52.00	-5.00
	1/17	1/22	1/24	15.00	21.00	19.00	49.00	6.00
	1/24	1/28	1/31	22.00	23.00	21.00	54.00	12.00
	1/31	2/4	2/7	*27.00*	*24.00*	*21.00*	*53.00*	*19.00*
	2/7	2/11	2/14	*30.00*	*24.00*	*21.00*	*46.00*	*29.00*
	2/14	2/19	2/21	*30.00*	*24.00*	*21.00*	*52.00*	*23.00*
	2/21	2/25	2/28	*30.00*	*24.00*	*21.00*	*63.00*	*12.00*
	2/28	3/3	3/6	*30.00*	*24.00*	*21.00*	*65.00*	*10.00*
	3/6	3/10	3/13	*30.00*	*24.00*	*21.00*	*66.00*	*9.00*
	3/13	3/17	3/20	*30.00*	*22.00*	*19.00*	*64.00*	*7.00*
	3/20	3/24	3/27	*25.00*	*22.00*	*19.00*	*63.00*	*3.00*
					860.00		*740.00*	*120.00*
CASH MANAGEMENT BILLS								
31-DAY BILL		2/13	2/15		*25.00*		*25.00*	*0.00*
	Matures 3/17							
14-DAY BILL		2/28	3/3		*20.00*		*20.00*	*0.00*
	Matures 3/17							
								0.00
COUPONS						CHANGE IN SIZE		
10-Year TIPS	1/7	1/10	1/15		8.00		19.40	-11.40
20-Year TIPS	1/17	1/24	1/31		8.00			
2-Year Note	1/24	1/28	1/31		24.00	2.00		
5-Year Note	1/24	1/29	1/31		14.00	1.00	21.60	24.40
10-Year Note	1/30	2/6	2/15		*14.00*	*1.00*		
30-Year Bond	1/30	2/7	2/15		*9.00*		*54.60*	*-31.60*
2-Year Note	2/25	2/27	2/29		*25.00*	*1.00*		
5-year Note	2/25	2/28	2/29		*15.00*	*1.00*	*21.80*	*18.20*
10-Year Note - R	3/11	3/13	3/17		*10.00*	*1.00*		*10.00*
2-Year Note	3/24	3/26	3/31		*25.00*			
5-year Note	3/24	3/27	3/31		*15.00*		*20.20*	*19.80*
					167.00		*137.60*	*29.40*

Estimates are italicized

NET CASH RAISED THIS QUARTER: 149.40

R = Reopening

US TREASURY FINANCING SCHEDULE FOR 2nd QUARTER 2008
BILLIONS OF DOLLARS

ISSUE	ANNOUNCEMENT DATE	AUCTION DATE	SETTLEMENT DATE	OFFERED AMOUNT 4-WK	OFFERED AMOUNT 3-MO	OFFERED AMOUNT 6-MO	MATURING AMOUNT	NEW MONEY
4-WEEK AND 3&6 MONTH BILLS	3/27	3/31	4/3	*22.00*	*22.00*	*19.00*	*64.00*	*-1.00*
	4/3	4/7	4/10	*15.00*	*21.00*	*18.00*	*64.00*	*-10.00*
	4/10	4/14	4/17	*9.00*	*19.00*	*17.00*	*65.00*	*-20.00*
	4/17	4/21	4/24	*9.00*	*19.00*	*17.00*	*62.00*	*-17.00*
	4/24	4/28	5/1	*9.00*	*19.00*	*17.00*	*63.00*	*-18.00*
	5/1	5/5	5/8	*15.00*	*19.00*	*17.00*	*57.00*	*-6.00*
	5/8	5/12	5/15	*18.00*	*19.00*	*17.00*	*52.00*	*2.00*
	5/15	5/19	5/22	*18.00*	*19.00*	*17.00*	*52.00*	*2.00*
	5/22	5/27	5/29	*18.00*	*19.00*	*17.00*	*53.00*	*1.00*
	5/29	6/2	6/5	*18.00*	*19.00*	*17.00*	*59.00*	*-5.00*
	6/5	6/9	6/12	*18.00*	*19.00*	*17.00*	*62.00*	*-8.00*
	6/12	6/16	6/19	*11.00*	*19.00*	*17.00*	*60.00*	*-13.00*
	6/19	6/23	6/26	*13.00*	*19.00*	*17.00*	*59.00*	*-10.00*
					669.00		*772.00*	*-103.00*
CASH MANAGEMENT BILLS								
14-DAY BILL		3/31	4/1		*25.00*		*25.00*	*0.00*
	Matures 4/15							
6-DAY BILL		4/8	4/9		*22.00*		*22.00*	*0.00*
	Matures 4/15							
4-DAY BILL		4/10	4/11		*8.00*		*8.00*	*0.00*
	Matures 4/15							
18-DAY BILL		5/28	5/29		*30.00*		*30.00*	*0.00*
	Matures 6/16							
11-DAY BILL		6/3	6/5		*12.00*		*12.00*	*0.00*
	Matures 6/16							
								0.00
COUPONS						CHANGE IN SIZE		
10-Year TIPS - R	4/7	4/10	4/15		*6.00*			*6.00*
5-Year TIPS	4/17	4/22	4/30		*8.00*			
2-Year Note	4/21	4/23	4/30		*25.00*	*1.00*		
5-Year Note	4/21	4/24	4/30		*15.00*	*1.00*	*21.60*	*26.40*
10-Year Note	4/30	5/7	5/15		*15.00*	*1.00*		
30-Year Bond - R	4/30	5/8	5/15		*7.00*	*2.00*	*74.00*	*-52.00*
2-Year Note	5/22	5/28	6/2		*26.00*	*1.00*		
5-year Note	5/22	5/29	6/2		*16.00*	*1.00*	*22.10*	*19.90*
10-Year Note - R	6/9	6/12	6/16		*10.00*			*10.00*
2-Year Note	6/23	6/24	6/30		*27.00*	*1.00*		
5-year Note	6/23	6/26	6/30		*17.00*	*1.00*	*21.10*	*22.90*
					172.00		*138.80*	*33.20*

Estimates are *italicized*
R = Reopening

NET CASH RAISED THIS QUARTER: -69.80

January 30, 2008
HP-779

Minutes of the Meeting of the Treasury Borrowing Advisory Committee of the Securities Industry and Financial Markets Association

January 29, 2008

The Committee convened in closed session at the Hay-Adams Hotel at 10:35 a.m. All Committee members were present except Gary Cohn. Undersecretary for Domestic Finance Robert Steel, Assistant Secretary for Financial Markets Anthony Ryan, Deputy Assistant Secretary for Federal Finance Matthew Abbott, and Office of Debt Management Director Karthik Ramanathan welcomed the Committee and gave them the charge.

A series of charts related to the fiscal situation, and noting current trends, including increased year over year growth in revenues (though slower than last year), increased growth in outlays, and decreased (negative) issuance in State and Local Government Securities (non-marketable debt) issuance, was presented by Abbott . The charts also highlighted the trend in Treasury cash balances as well as additional information outlining increased net purchases of Treasury securities by international investors.

Several themes related to the economy, the fiscal outlook, and Treasury debt issuance as a whole also emerged from the charts. The slides showed that Treasury would need to increase its marketable borrowing in fiscal year 2008 given the potential for less gradual shifts in revenues and outlays in FY 2008, a larger debt maturity profile, decreased issuance of non-marketable securities fiscal year to date, and any potential fiscal stimulus.

In this vein, Treasury will most likely rely on bills and shorter term nominal coupons to address these issues. Moreover, Treasury will need to issue longer dated cash management bills than recently issued to address issues related to the timing of tax refunds (given that a larger portion of refunds will be electronic rather than in paper form this year versus last year) as well as to potentially manage any fiscal stimulus. As coupons were gradually increased, the dependence on bills would lessen towards the end of the fiscal year barring any surprises. Financing decisions will continue to be made in a transparent manner and in consultation with market participants

Before commenting on the series of charts presented in the first item on the charge, the Committee Chair suggested that Treasury consider the second item regarding Treasury financing patterns. In particular, this charge item referred to the lead/lag effects of revenues and outlays on Treasury debt issuance in various economic cycles, and the potential issuance patterns Treasury should be cognizant of moving forward given such trends. The Committee Chair suggested that the discussion of the second item would provide good background prior to discussion of the first item.

A Committee member was asked to address this item and presented a series of slides showing cyclical influences on federal finance. According to the presenting Committee member, economic cycles generally produce larger than anticipated swings in federal budget balances, and the volatility seems to have increased even as the economy has become less cyclical.

In the 2001 recession, the percentage change in the budget deficit was 6.2 percent of GDP compared to an average change of 2.1 percent of GDP in other recessionary periods between 1954 and 1995. In addition, errors in budget projections tend to be serially correlated, i.e., forecasts tend to over-predict deficits when the economy is expanding and under-predict deficits when the economy is contracting.

Tax receipts are highly cyclical, and according to the presenting member, non-withheld and corporate tax revenues pose a greater risk to Treasury than withheld taxes. The presenting Committee member noted that corporate taxes over the near to intermediate term may remain stable given the increased presence of US corporations abroad, but that a significant driver on non-withheld receipts - equity markets - was likely to be less robust as compared to the previous cycle.

In addition, the presenting Committee member noted that receipts are generally more volatile than outlays, and this trend was particularly relevant in the last economic cycle. Weakness in receipts also tends to continue well into recovery periods because counter-cyclical policy responses tend to be implemented belatedly causing revenues to lag.

The presenting Committee member stated that debt managers generally had an extremely challenging role in the current environment given the uncertainty present in the economy. While recent tax data does not yet suggest significant weakness, Treasury should closely monitor the tax season in March and April for greater clarity. The risks to the deficit were higher in fiscal year 2009 rather than fiscal year 2008, and that a deteriorating economic outlook could lead to significantly larger deficits.

The presenting Committee member then considered fiscal stimulus proposals, noting the difficulty with such proposals to be timely, targeted, and temporary. The presenting Committee member stated that monetary policy may be more effective than fiscal policy, and that fiscal stimulus often is too little, too late. The presenting Committee member noted that if fiscal stimulus were to occur, a larger and quickly implemented package would be more effective than a phased approach given the potential positive feedback mechanism within the economy. The presentation concluded with a recommendation by the presenting Committee member on how Treasury may want to proceed given some of the lead/lag issues related to receipts, and suggested that Treasury needed to be vigilant of even higher deficits if the economy weakened.

In the discussion that followed the presentation, the Committee began by agreeing that larger deficits could materialize in fiscal years 2008 and 2009, and that it may be prudent to begin to plan for such deficits. Issuance decisions by debt managers at turning points in the economic cycle are extremely challenging, and Treasury needs to maintain flexibility. One member opined that in a worse case scenario, deficits could double over the next few years, even before the expected secular increases in budget deficits are expected in the 2013 to 2017 period. This member stated that treasury should plan now for such scenarios to preserve its flexibility and to have a form of "insurance".

Several members agreed with this perspective with one member suggesting that Treasury needed to start thinking more strategically about the funding issues by not only considering financing quarter-by-quarter but also financing over an entire economic cycle. A few members noted that while theoretically appealing, planning for more than one year – even one quarter - was extremely difficult given very large projection errors.

A brief discussion ensued about whether the stimulus package would create temporary or secular deficits, with members suggesting it was a difficult dynamic modeling question given that such stimulus could increase revenues. One member suggested that Treasury should consider extending its duration by increasing issuance of longer-term maturities. Several members questioned whether such longer-dated issuance would constitute an overreaction since little is known about whether economic growth over the intermediate term was prolonged or temporary (i.e. will the recovery going to be "V-shaped", "U-shaped" or "L-shaped"). Another member stated that for the time being, Treasury could finance deficits in FY 2008 with its current auction calendar, but that if the economy should weaken materially or appear to be headed towards a prolonged recession, increasing nominal issuance in the 10-year and 30-year sectors may be prudent at that point.

A member opined that Treasury that cash management was just as important as debt management, and that as part of a comprehensive strategic plan, Treasury needed to utilize more of its existing tools including the repurchase of securities (buybacks). A few members stated that Treasury should consider the repurchase of Treasury securities during particularly large debt maturity periods using seasonal

large cash balances.

These repurchases, done in a transparent manner, could be used to lessen the impact of large debt maturity dates (such as those in May, August, and November), reduce the size of cash management bills, and provide greater flexibility to the Treasury. Another member agreed and suggested that Treasury study using debt purchases in the market to minimize cash balances and reduce the risk associated with very large cash management bills or bill issuance during periods of increased debt maturities. Director Ramanathan agreed to examine Treasury's use of debt repurchases for cash management purposes.

The Committee then turned to the discussion of the first question in the charge concerning thoughts on fiscal outlook and financing the proposed fiscal stimulus. Several members noted that given the current deficit projections, the use of bills including the use of long-dated cash management bills as well as increasing short-term coupon sizes would be sufficient to financing in fiscal year 2008. One member suggested that between $80 billion and $100 billion of stimulus would need to be financed in the current fiscal year, and that Treasury was sufficiently prepared to meet this need.

A few members noted that the market could easily absorb another $100 billion in bill issuance if it occurred gradually. Some members noted that there was a renewed appetite for risk-free credit assets from both traditional and non-traditional accounts, and that issuing more bills as well as longer dated cash management bills in this environment may be beneficial for both investors and the Treasury.

A couple of members pointed out that such a strategy of using bills and increasing issue sizes of shorter maturity coupons would only work if current deficits projections were realized and there were no surprises to the economy. The member cautioned that Treasury should be more cognizant of potential upside risks to the deficit or "fat tail" events, including further slowing in the economy or the potential for some other unforeseen policy responses such as additional stimulus packages. Prudent risk management suggested a cautious approach including some increase in coupons. One member noted that the economic outlook had changed dramatically with the introduction of a stimulus package and that reintroducing the 3-year note would be readily accepted by market participants.

The Committee concluded the discussion by stating that Treasury should be prudent and continue to monitor risks to a larger deficit. Increased issuance in bills and shorter dated nominal coupons would be sufficient barring nay unforeseen circumstances. In addition, the issuance of longer dated cash management bills to bridge temporary cash outflows related to the tax refund season as well as any stimulus package would be wise. If financing needs were to increase, Treasury should first consider addressing these needs through increases in auction sizes, then increases in auction frequencies, and finally, consider adding maturity points. In all of these choices, Treasury should consider cost trade offs between the three actions.

In the final item of the charge, the Committee was asked about their thoughts regarding the low-interest rate environment and its implications on systemic fails. In particular, the Committee was asked if current market conditions, coupled with the potential for lower interest rates, raise the potential risk of systemic fails. The Committee was asked if any additional steps should be taken to minimize the likelihood or impact of systemic fails so that overall market liquidity is not negatively impacted by Treasury repo financing.

A series of charts related to this matter were presented including a chart of the relation of low rates to Treasury fails to deliver, as well as recent actions in the market which have improved overall liquidity. Private sector efforts initiated by such as the Securities Industry and Financial Markets Association (SIFMA) and the Treasury Markets Practice Group (TMPG) have looked at these issues since the last episode of systemic fails, but Treasury asked the Committee if more could be done. In particular, Treasury asked if other methods such as negative rate trading, strengthening the buy-in rule, and/or promoting greater coordination among financial institutions were worth considering.

Committee members generally agreed that more work needed to be done in a fairly rapid time frame regarding this issue to assure continued market efficiency in a low-

interest rate environment. Several members did not realize that these specific actions had not been fully implemented since the last serious wave of fails. Another member cautioned that any solution still had the potential to be "gamed," and one had to always be aware of the law of unintended consequences. Another member suggested that reopening issues was a tool that should be considered despite Treasury's firmly stated reluctance to add permanent supply. Several members noted that private sector groups needed to focus their attention on this issue given the speed in which fails could become elevated, and those suggestions such as negative rate trading and or other netting measures needed to be introduced.

Moral suasion was also emphasized as another method to deal with systemic fails. Specifically, determining which market participants are holding securities back from market and encouraging those players to lend during times of protracted shortages and systemic fails was critical. Another member suggested that Treasury reconsider providing temporary supply via a securities lending facility.

Several members noted that the publishing of the Treasury Market Best Practices by the TMPG was well received by market participants, but that specific, complementary solutions needed to be implemented in a compressed time frame to prevent another episode with prolonged fails. A member asked if major central banks were aware of the TMPG and the opportunities in lending in the financing market. Director Ramanathan stated that reserve managers at major central banks as well as international investors which Treasury regularly spoke to felt that the Treasury Best Practices document was a positive development, and looked forward to continued efforts by all stakeholders.

The committee agreed that the TMPG, in conjunction with SIFMA and other private sector entities, should draft recommendations on effective, practical methods which could be quickly implemented to address systemic fails. The Committee agreed that this issue need to be managed in a timely manner given the speed in which rates have decreased and the global nature of the Treasury market.

Director Ramanathan agreed that Treasury would continue to follow the work of SIFMA, the TMPG, and other private sector parties, and suggested that any such recommendations and responses be presented to the Committee at a subsequent meeting.

The Committee then reviewed the financing for the remainder of the January through March quarter and the April through June quarter (see attached).

The meeting adjourned at 11:55 a.m.

The Committee reconvened at the Hay-Adams Hotel at 6:00 p.m. All the Committee members except Gary Cohn were present. 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 6:15 p.m.

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Karthik Ramanathan, Director
Office of Debt Management, United States Department of the Treasury
January 29, 2008

Certified by:

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Keith T. Anderson, Chairman
Treasury Borrowing Advisory Committee
of The Securities Industry and Financial Markets Association
January 29, 2008

Treasury Borrowing Advisory Committee Quarterly Meeting
Committee Charge – January 29, 2008

Fiscal Outlook

Given recent trends in the fiscal outlook, what are the TBAC's thoughts on Treasury's debt issuance? In addition, Treasury would like the Committee's views on the proposed fiscal stimulus and how such stimulus could be financed by Treasury.

Treasury Financing Patterns

Treasury would like the Committee's perspective on the lead/lag effects of revenues and outlays on Treasury debt issuance in various economic cycles, and the potential issuance patterns Treasury should be cognizant of moving forward, given such trends.

Low Interest Rate Environment

Current market conditions, coupled with the potential for lower interest rates raises the potential risk of systemic fails, a risk that we believe could impair liquidity and raise our cost of borrowing. Should any additional steps be taken to minimize the likelihood or impact of systemic fails so that overall market liquidity is not negatively impacted by Treasury repo financing?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $54.5 billion of privately held notes maturing on February 15, 2008.
- The composition of Treasury marketable financing for the remainder of the January-March quarter, including cash management bills.
- The composition of Treasury marketable financing for the April-June quarter.

January 30, 2008
HP-782

--UPDATE--
Secretary Paulson to Mark Earned Income Tax Credit Awareness Day

Treasury Secretary Henry M. Paulson, Jr. will join U.S. Treasurer Anna Escobedo Cabral, Acting IRS Commissioner Linda Stiff, Senator Max Baucus and Senator Charles Grassley in holding a press conference Thursday, January 31 marking EITC Awareness Day, which promotes the earned income tax credit. This briefing will also be Web cast on the Treasury Department's website: www.treasury.gov.

The EITC is one of the government's largest cash assistance programs targeted to low-income, working Americans, and has successfully brought millions of Americans out of poverty. Yet, nearly 1 in 4 Americans who are eligible for the credit do not claim this important benefit.

The Treasury and the IRS will promote EITC Awareness Day in conjunction with hundreds of local area partners who will be holding similar events across the country to promote the EITC and free tax preparation services for working families. For more information on the EITC, visit the IRS's website at IRS.gov.

Who
Secretary Henry M. Paulson, Jr.
Treasurer Anna Escobedo Cabral
Acting IRS Commissioner Linda Stiff
Margaret Roark, Chairwoman, IRS Advisory Council

What
Press Conference Marking EITC Awareness Day

When
Thursday, January 31, 10:30 a.m. EST

Where
Media Room (4121)
Treasury Department

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.

This briefing will also be Web cast on the Treasury Department's website: Treasury.gov.

January 29, 2008
HP-783

Testimony of Douglas H. Shulman
before the Senate Finance Committee
on
Nomination to Become the Commissioner of Internal Revenue

Washington, D.C.--Good morning, Mr. Chairman, Ranking Member Grassley and Members of the Committee.

My name is Douglas Shulman and I am currently the Vice Chairman of the Financial Industry Regulatory Authority. It is an honor to appear before the Committee today as you consider my nomination to become the Commissioner of Internal Revenue.

I appreciate your giving me the opportunity to make a brief opening statement before taking your questions. I would also like to take this opportunity to introduce my wife, Susan, and my two children, Benjamin and Eve.

Mr. Chairman, the importance of the Internal Revenue Service (IRS) cannot be overestimated. How the IRS approaches its work, and interacts with taxpayers, greatly affects both the functioning of the federal government, as well as Americans' overall view of their government.

The IRS touches every adult, every business and every non-profit organization in America. For many citizens, it is the only federal agency with which they will have contact in a given year.

Never has thoughtful leadership and direction at the IRS been more critical, as the federal government's responsibilities to its citizens have grown.

As you know, the IRS collects the vast majority of the revenue needed to fund our government and the services it provides, from protecting the environment to defending our homeland to improving educational opportunities and increasing access to health care services. It is an awesome responsibility to lead such an agency. And because I recognize the enormous challenge of the position, I have given a lot of thought as to how I would approach the job.

Since I've been nominated, many people have asked me if I would emphasize service or enforcement. But to be forced to choose between the two is a false choice. In order to execute its mission, the IRS must do both.

For taxpayers who pay their taxes willingly and on time, which is the great majority of Americans, there must be clear guidance, accessible education, and outstanding service. Our aim should be to make it as easy as possible for them to pay the correct amount of taxes in the most efficient and least burdensome manner possible. For taxpayers who intentionally evade paying their taxes, there must be rigorous enforcement programs. But whether serving taxpayers or enforcing the law, it is absolutely essential that American's believe the IRS is fair and that it respects the rights of all taxpayers.

Thanks to Commissioners Rossotti and Everson, there are important initiatives currently in place that if confirmed I would anticipate continuing. I would also bring a fresh set of eyes to the position, and ensure that the agency continues to evolve as circumstances change.

Any effort to improve services must include a commitment to IRS modernization. IRS employees must have timely access to taxpayer data so assistance is quick

and accurate. This will require focusing on and investing in IRS processes, as well as the IRS's information technology systems. If confirmed as Commissioner, I would make this one of my top priorities.

The IRS must also continue its rigorous enforcement programs. It must deter those who may be inclined to evade their legal tax obligations and pursue those who engage in evasion. And as Members of this Committee already know, in recent years a number of significant steps have been taken to shut down tax shelters and other abusive transactions that were created for no other reason than to avoid taxation.

I also believe that it is essential for the IRS to work closely with the practitioner community, including lawyers, accountants, and tax preparers – a vital part of our nation's tax compliance system. The IRS must use all the tools at its disposal – dialogue, education, service and enforcement – to ensure that these important members of the tax community are partners in our efforts to see that all individuals and institutions meet their tax obligations.

Finally, if confirmed, I plan to focus on leadership and employee development during my tenure as Commissioner. I have been extremely impressed by the current leaders of the IRS and its dedicated and talented workforce. However, like other federal agencies, many experienced and knowledgeable IRS employees will be approaching retirement eligibility in the coming years. It is critical that the next Commissioner devotes significant attention to the recruitment, training and grooming of the next generation of IRS leaders.

Mr. Chairman, it is an honor to have been nominated by the President to be the next Commissioner of the IRS. I am under no illusion that, if confirmed, it will be a very demanding and difficult job.

As Commissioner, I would do everything in my power to ensure that the nations' tax laws are administered in a fair and efficient manner. Essential to my success would be a close partnership with Members of Congress on both sides of the aisle, and you have my commitment to work closely with this Committee.

Thank you and I would be happy to respond to your questions.

January 29, 2008
HP-784

Treasury Secretary Paulson to Deliver Remarks on the U.S. Economy

Secretary Henry M. Paulson, Jr. will deliver remarks on Wednesday at The Real Estate Roundtable's State of the Industry Meeting. He will discuss the state of the U.S. economy and the fiscal growth package.

Who
Treasury Secretary Henry M. Paulson, Jr.

What
Remarks on the U.S. Economy

When
Wednesday, January 30, 2:30 p.m. EST

Where
Park Hyatt Washington
Park Ballroom
24th and M Streets, NW
Washington, D.C.

January 29, 2008
HP-785

Treasury To Hold Briefing on Clean Technology Fund

Under Secretary David H. McCormick will hold a briefing this afternoon on the clean technology fund President Bush discussed in the State of the Union address. No cameras will be permitted into the briefing.

Who
Under Secretary David H. McCormick

What
Pen-and-Pad Briefing on Clean Technology Fund

When
Tuesday, January 29, 2:00 p.m. EST

Where
Andrew Johnson Suite (3432)
U.S. Treasury Department
1500 Pennsylvania Avenue, NW
Washington, D.C.

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.

A fact sheet on the energy initiatives discussed in the State of the Union address is available at: ttp://www.whitehouse.gov/stateoftheunion/2008/initiatives/energy.html

Increasing Our Energy Security And Confronting Climate Change

The Administration Is Taking Steps To Reduce U.S. Dependence On Oil, And To Advance U.S. Leadership In Developing A Global Response To Climate Change

ıight, President Bush will call on Congress to work with him on the next steps to improve our energy security and ıfront the challenge of climate change without undermining economic growth. Last month, the President signed an ergy bill that will help cut greenhouse gas emissions and reduce U.S. dependence on oil, which harms America economically ough high prices at the gas pump. As world demand for energy continues to increase, the President urges Congress to act on remaining proposals from his energy security agenda:

- **We must continue changing the way America generates electric power through even greater use of clean coal technology, solar and wind energy, and clean, safe nuclear power.**
- **We must increase our domestic supply of oil in a prudent and environmentally sensitive way.** The President urges Congress to pass legislation that opens access to domestic energy sources in the Outer Continental Shelf and Alaska and that protects America against supply disruptions by doubling the Strategic Petroleum Reserve.
- **President Bush is committing $2 billion over the next three years to create a new international clean energy technology fund to help confront climate change worldwide.** Along with contributions from other countries, this fund will increase and accelerate the deployment of all forms of cleaner, more efficient technologies in developing nations like India and China, and help leverage substantial private-sector capital by making clean energy projects more financially attractive.

President Will Call On Congress To Work With Him To Take Advantage Of New Clean Energy Technologies

sident Bush supports an increase in the use of nuclear power as a clean, safe, and affordable alternative energy ırce to meet America's growing needs for electricity. Nuclear power produces no greenhouse gases, and a growing ıber of people believe it is an environmentally necessary choice. Without its use, power sector CO2 emissions would have n 28 percent greater in the electricity industry in 2005 – nearly equal to the annual emissions from all 136 million passenger s in the U.S.

sident Bush seeks to fund new technologies that can produce power from coal with significantly lower carbon ssions. Coal is America's most abundant and affordable energy resource, responsible for generating about 50 percent of erica's electric power. We are now cutting harmful air pollution from coal, and we have to learn to cut CO2.

sident Bush is dedicated to strong growth in renewable electricity generation. Since 2001, wind power in the U.S. has wn 550 percent and photovoltaic solar power grown by 525 percent; overall, renewable power has nearly doubled. The U.S. the world in new wind capacity in 2006 and 2007. The President's Solar America Initiative – launched in 2006 – doubled U.S. stment in solar energy. The U.S. leads the world in geothermal electricity generation, with almost 3,000 megawatts of new acity planned for development in the West.

United States will continue to lead the way in developing the clean and efficient technologies critical to reducing enhouse gas emissions while fostering economic growth. Since the President took office, the Federal government has mitted nearly $18 billion to research, develop, and promote clean and efficient technologies and help get them to market. private sector has responded with significant investments, ranging from corporate research and development to the venture tal markets.

omplement the new international clean technology fund, the United States and the European Union have jointly osed in the WTO to eliminate tariff and non-tariff barriers to clean energy and environmental technologies and ices. Global trade in the goods covered by the proposal totaled $613 billion in 2006 and could increase by an additional 7-ercent annually according to the World Bank.

Administration Continues To Lead The Effort To Reach A New, Post-2012 Global Agreement

President will reaffirm the United States' commitment to work with major economies and through the UN to plete an international agreement that will slow, stop, and eventually reverse the growth of greenhouse gases. This ement will be effective only if it includes commitments by every major economy and gives none a free ride.

s week, the United States will host the second Major Economies Meeting on Energy Security and Climate Change. :sident Bush announced this initiative in May 2007 to work with all of the world's largest energy users, including both 'eloped and developing nations, to produce a detailed contribution from the leaders of these countries to help establish an :rnational agreement by 2009 under the United Nations Framework Convention on Climate Change. In September, the U.S. ;ted representatives of 17 world leaders plus the United Nations.

)ecember, the United States joined the global consensus at the UN Climate Conference in Bali to launch a nprehensive "roadmap" for global climate negotiations. The Bali Action Plan is a critical first step in moving the UN jotiation process forward toward a comprehensive and effective post-2012 arrangement by 2009. The United States looks vard to participating in the negotiations envisioned in the Bali Action Plan, including through the Major Economies Process I other appropriate channels to achieve an effective outcome.

; Energy Independence And Security Act Of 2007 Will Reduce U.S. Gasoline Consumption And Help Diversify ierica's Energy Sources, And Produce Some Of The Largest Greenhouse Gas Reductions In U.S. History

)ecember, President Bush signed the Energy Independence and Security Act of 2007, which responded to his venty in Ten" challenge in last year's State of the Union Address to improve vehicle fuel economy and increase :rnative fuels. This bill will help reduce America's dependence on oil, improve efficiency, and cut emissions by:

- **Mandating that fuel producers use at least 36 billion gallons of biofuel by 2022.** Although on a longer timeline than the President proposed last year, the new requirement represents a nearly five-fold increase over previously required levels.
- **Mandating a national fuel economy standard of 35 miles per gallon by 2020 – which will increase fuel economy by 40 percent and save billions of gallons of fuel.** This requirement represents the first statutory increase in automobile fuel economy standards since 1975 and includes an important "attribute-based" reform the President called for that will ensure that increased fuel efficiency does not come at the expense of automotive safety.
- **Mandating increases in energy efficiency of light bulbs by 30 percent.** This will effectively phase out most common types of incandescent light bulbs by 2012.
- **Mandating new efficiency standards for nine appliances and encouraging the development of more efficient commercial buildings, in addition to work already underway to update dozens of existing standards.**
- **Mandating that Federal government operations reduce total energy use in Federal buildings by 30 percent by 2015, reduce annual petroleum consumption by 20 percent by 2015, and increase use of alternative fuels by 10 percent by 2015.** These new provisions effectively adopted key requirements of an Executive Order that President Bush issued last year. Because the Federal government is one of the world's largest consumers of energy, these steps will not only have significant energy security and climate benefits, but will also help boost markets for cleaner, more efficient technologies.

en together, these programs will cumulatively reduce projected greenhouse gas emissions by more than six billion ric tons by 2030, according to preliminary estimates.

ırn to this article at:
//www.whitehouse.gov/stateoftheunion/2008/initiatives/energy.html

January 29, 2008
HP-786

Remarks by Deputy Secretary Robert M. Kimmitt at the Virginia Military Institute

A Department Transformed: Treasury's Role in National Security

Lexington, Va. – Thank you, Casey Brower, for your kind introduction, but moreover for forty years of support as a classmate and friend. And sincere thanks to the Virginia Military Institute for inviting me here to address both the Cadets and the wider VMI community.

It has been my honor to serve with VMI graduates in war and peace, in uniform and in civilian life. Your Superintendent, General Peay, was a fellow Field Artilleryman – indeed, he was my assignments officer when I returned from Vietnam. I envy you Cadets the years of service in front of you, whether in uniform or in the private sector. And, in addition to your faith and family, you can be sure of one constant source of support throughout your life – the classmates sitting around you today. In that connection, I would note that, in addition to General Brower, we are joined today by Colonel Red Taylor, both a West Point classmate and company-mate of mine.

I would like to talk to you today about the Department of the Treasury, one of our oldest and most respected federal institutions. When many of you think of the Treasury, I am sure you think about our most visible and well known functions: printing paper currency, minting coins, collecting taxes, issuing savings bonds, regulating national banks, and managing the economy. But especially since the tragic events of 9-11-2001, Treasury has gone well beyond these time-honored responsibilities and has begun to play an ever-greater role in protecting our national security. I want to make sure that this important audience knows about this transformed Treasury Department.

As I speak to you today, I am reminded of the counsel I received before going to Germany as Ambassador in 1991. My predecessor, Vernon Walters, passed along only one bit of advice: "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 the one assembled here today. He spoke in his excellent German for 40 minutes and sat down, rather pleased with himself, only to have the host of the event stand and say, "Mr. Ambassador, thank you so much 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, my allotted 30 minutes only leaves me time today for "remarks," but I hope they will be remarks that give you new insights into your Treasury Department.

The U.S. Economy, Credit Markets, and Housing Markets

Before turning to Treasury's expanding role in national security affairs, I would like to say a few words about the state of the U.S. and global economies – an issue at the forefront of Treasury's agenda, and one that was a key topic of interest at the World Economic Forum in Davos, which I attended last week.

As the President said last evening in his State of the Union address, the U.S. economy is fundamentally healthy and is expected to continue to grow. A broad view of the economy shows that there are many signs of strength that will help keep it on a solid path. Real GDP growth was 4.9 percent in the third quarter of last year, supported by gains in consumer spending and business investment. Continued global economic growth is helping to boost U.S. exports, commercial construction is strong, and core inflation remains contained.

At the same time, growth looks to have slowed recently, and the U.S. economy is facing significant headwinds from housing, credit markets, and energy prices.

The correction we are currently experiencing in the housing market remains formidable, and was inevitable at some point after years of unsustainable home price appreciation. Housing has subtracted substantially from real GDP growth since the correction began in early 2006. Housing starts have fallen over 50 percent from their peak, and, nationwide, home prices are up just 2 percent over the past year. Some regions that experienced the highest house price appreciation are now seeing price declines.

Turmoil in credit and mortgage markets is also of concern. Fortunately, our financial institutions entered into this recent period with strong earnings and strong capital. They continue to be well-capitalized, and regulators are monitoring their status closely. These challenges will take time to resolve, and we are especially mindful of the risk that banks could reduce their lending to creditworthy borrowers.

Some of the incoming economic data are raising concerns about the health of our expansion, including reports that consumer spending is slowing. Also, while job creation in the United States continues, December saw a much more modest pace of growth. Although we saw the 52nd consecutive month of job increases, a U.S. record, the 18,000 jobs created in December were the smallest gain of that 52-month period.

Therefore, while I am confident about our long-term economic strength, there are short-term downside risks. For this reason, and at the direction of the President, the Administration is working closely with Congress to reach a bipartisan agreement to develop a short-term economic growth package that can be put in place as soon as possible to keep our economy growing and creating jobs this year.

After much hard work with House leadership, the Administration reached an agreement last Thursday on a package that is meant to be temporary, broad-based, and have an impact immediately. It includes measures to bolster business investment and consumer spending – both of which are critical to economic growth. The experience of the 2001 and 2003 tax cuts showed that providing tax relief to families stimulates the broader economy by boosting household spending. Furthermore, offering incentives to spur business investment will encourage businesses to expand and create new jobs. By quickly putting in place this short-term package, we can protect the strength of our economy as we weather the housing correction.

The Administration is also continuing to promote initiatives to minimize the impact of the housing market downturn on the economy. In the short term, we are focusing on the number of preventable foreclosures we can avoid. We must remember that the ultimate goal here is not the freezing of rates on as many mortgages as possible, but rather the prevention of foreclosures where we are able. This is how we will best measure success.

And we have made progress on two fronts. First, the HOPE NOW alliance, a private sector coalition of mortgage servicers, mortgage counselors, investors, and trade associations, has announced promising developments by stepping up the rate at which they are modifying subprime mortgages to stave off foreclosures. In fact, mortgage servicers modified subprime loans in the fourth quarter at a rate three times faster than in the third quarter. Second, the Administration's FHASecure program allows homeowners who have missed payments to refinance their mortgages. Of course, more needs to be done – including ensuring that we address the underlying causes to avoid a recurrence. We need to strengthen the oversight of the Government Sponsored Enterprises Fannie Mae and Freddie Mac, examine the role of credit rating agencies, and study issues such as the regulation of mortgage brokers.

The challenges before us are complex, and we are working hard to address the economy's short-term needs. But I want to reiterate that the U.S. economy is diverse and resilient. It has been remarkably robust in recent years and will be so again.

Evolution of Treasury

Even as we at Treasury work to address current economic challenges, a core Treasury responsibility since its founding, I cannot help but reflect on how the Treasury's role today has notably expanded from what it was during my first tour at the Department in the 1980s, when I served as Treasury General Counsel under Secretary James Baker and President Ronald Reagan.

During those years, the Treasury Department was only occasionally involved in high-level National Security Council meetings or the Administration's major policy discussions as they related to threats to our national security. Today, the growing interdependence of the global economy and our own economic interests around the world dictate a greater role for Treasury in national security issues.

At the outset, let me say that even after 30 years of working on national security issues at senior levels of the U.S. Government, I have never seen a definition of national security that is enduring and all encompassing, precisely because national security is a dynamic concept that adapts to changes in the world situation. National security meant one thing in the Cold War period from 1945-1991; quite another in the post-Cold War period from 1991-2001; and something very different again after September 11, 2001.

In my view, national security is defined best by its elements, which themselves will adapt over time. In short, national security is the summation of our foreign, defense, and international economic policies, all resting on a strong intelligence base. It is the growth in importance of the international economic policy component of national security that has been so striking over the past ten years.

As a result, Treasury now participates in 5-10 National Security Council meetings each month, as compared to maybe one a month when General Brower and I served together in the Reagan years. We contribute on the positive side of our agenda: that is, strengthening financial systems and contributing to the development of economies in difficult security environments such as those in Iraq and Afghanistan. We also have a punitive capability: using powerful new legal authorities to combat illicit financial activity perpetrated by countries such as Iran and North Korea.

Today I would like to discuss two specific areas that illustrate this evolution: Treasury's contribution to the development of the Iraqi economy; and our role in combating Iran's illicit conduct in support of terrorism and nuclear proliferation.

Iraq

Over the past five years, Treasury has played a major role in helping the Government of Iraq create a stable macroeconomic environment and build a solid foundation for economic growth. Of course, security remains the major challenge facing Iraq's young democracy. But economic progress contributes directly to the prospect of enhanced security and a better life for the Iraqi people.

An economy that is spiraling out of control – because of hyperinflation or plunging growth – undermines social cohesion and fosters civil unrest. This unrest plays directly into the hands of insurgents, who can exploit the Iraqi government's failure to provide economic security as a rationale for joining their efforts, thereby impeding or reversing the security gains that the Iraqi and U.S. military work so hard to achieve. As a result, the President and the National Security Council have looked to Treasury and other agencies to help promote the policies and provide the technical expertise necessary to support a stable and growing economy. Gains in achieving this goal have been significant and, in my view, underemphasized. Let me give you a few examples.

When Saddam Hussein was forced from power, Iraq's currency was becoming worthless, and counterfeiting was rampant. Consider how important a stable currency is to daily life – we need to know that the currency we hold will maintain its value. When people lose faith in their currency, as happened, for example, in Weimar Germany in the 1920s, the result is economic chaos. Moreover, they may try to replace their currency with more reliable substitutes, such as gold or foreign currencies, which only exacerbates the problem.

In 2004, Treasury helped the Government of Iraq develop a new currency. The

introduction of the new Iraqi dinar required the printing of 2,300 tons of currency at facilities around the world, the shipment of this currency to Iraq via Boeing 747s, the circulation of this currency to 250 distribution points around the country, and the hand-to-hand exchange of the currency. About 2 billion banknotes have been successfully swapped, and the result has been a stable Iraqi dinar that is widely used by Iraqis.

High inflation was another major challenge – rapidly rising prices meant that more and more Iraqis found that their standards of living were dropping. Iraqi efforts in this area have resulted in another major success story: inflation has declined from 77 percent in mid-2006 to less than 5 percent by December 2007.

On the microeconomic level, we are seeing signs of progress, as well. For example, there has been a surge in registered businesses, which have jumped 500% post-Saddam, from 8,000 to over 40,000. We have also seen the advent of mobile technology, from almost zero to now 8 million cell phone subscribers, almost 1/3 of the Iraqi population. Similarly, there are now more than 260,000 internet subscribers, compared to an estimated 4,500 before the war.

The new government also inherited billions of dollars of Saddam-era government debt, many times more than Iraq could possibly repay. Imagine if you inherited credit card debt that was several times your annual salary. Without paying it off, you could not get new credit, and the debt would continue to build because of interest and penalties. In the case of Iraq, we helped the new government work out a deal with their creditors under which 80 percent of the debt was fully forgiven, and the remaining 20 percent paid off over several years. To date, 30 countries have concluded agreements providing debt forgiveness to Iraq worth $33 billion. As a result, Iraq is now on a much more financially sound footing, which in turn provides for a more attractive environment for international investors looking at opportunities in Iraq.

Treasury was also called upon to use its investigative expertise to lead the effort to identify and repatriate to the Iraqi people billions of dollars stolen by the Hussein regime. As a result of these efforts, we were able to identify and return more than $2 billion located in more than 500 bank accounts in 41 countries.

Treasury also continues to co-chair, with the Department of Defense, the Baghdad-based Iraq Threat Finance Cell (ITFC), whose mission is to enhance the collection, analysis, and dissemination of timely and relevant financial intelligence to combat the Iraqi insurgency. Since its establishment in late 2005, the ITFC has paid significant dividends to our war fighters. Senior U.S and Coalition military commanders have come to rely on the ITFC's analysis to help combat the Iraqi insurgency and disrupt terrorist, insurgent, and militia financial networks. For example, ITFC analysts and agents assist Coalition Forces in exploiting financial data captured on persons in raids in Iraq and identifying trends and patterns in insurgency financing.

To help build the confidence and support of the international community for the Iraqi economy, Treasury has also been involved in a major initiative called the International Compact with Iraq. I had the honor of serving as Presidential Envoy for this important initiative. Under the Compact, the Government of Iraq reached out to key partners in the international community to establish a collaborative process for developing policy commitments. These reform commitments will put the Iraqi economy on a path to self-sufficiency and sustainable growth, while also creating safeguards to protect the most vulnerable groups in its society. In return, the international community has continued to provide support in various forms, including debt relief, loans, grants, and technical assistance. The final Compact document was presented at a meeting in Sharm El Sheikh, Egypt, in May 2007 that was attended by over 70 countries and institutions and hosted by UN Secretary General Ban Ki Moon and Iraqi Prime Minister Maliki.

The Compact is important because it commits Iraq to a number of significant unifying principles, including the adoption of policies to ensure that all Iraqis benefit from the country's vast oil resources, important anti-corruption practices, and the protection of vulnerable citizens. All of these reforms will help achieve both economic and security objectives. Moreover, the Compact was unanimously endorsed by Iraqi Cabinet members from all of Iraq's communities – Shia, Sunni, and Kurds – establishing a clear consensus on the direction and strategy for

realizing Iraq's economic potential.

Looking ahead, Treasury has several economic priorities in Iraq for the coming year, with budget execution a top priority. Slow budget execution – that is, failing to spend budgeted funds – means the Government of Iraq has been unable to provide essential services and capital investment in key sectors. As security has improved, however, Iraq's central government ministries and provincial governments have been able to increase their rates of spending on investment. As a result, the level of government investment in crucial infrastructure and services through September 2007 had already well exceeded the level for all of 2006. However, even more progress will be critical for building confidence in the Maliki government's ability to deliver essential services throughout the country.

Second, we want to help secure more debt relief for Iraq. Several major countries that made commitments to provide debt relief – such as Saudi Arabia and Russia – have yet to deliver. We want to make a final push to get this done by the end of 2008. This will enable Iraq to borrow money to finance its investments, something that is not currently possible.

Third, we are continuing to work with the Iraqis to implement crucial reforms outlined in the International Compact, such as bank restructuring, investment reform, and hydrocarbons legislation. These types of reforms are essential for making it easier for businesses – from small scale entrepreneurs to major international corporations – to invest in Iraq. This will create opportunities for job growth and give all Iraqis a stake in maintaining a secure environment.

Iran

Let me now turn to Treasury's role in U.S. policy toward Iran, where we have seen that, through a combination of targeted financial measures by governments and necessary vigilance and action by the private financial sector, we can put tremendous pressure on the support networks of illicit actors.

The Treasury Department has embarked on an initiative to alert the international community to the threat that Iran poses to the international financial system. Over the past year and a half, Secretary Hank Paulson, Under Secretary Stuart Levey, and I have met with our finance ministry and central bank counterparts from around the world to discuss the imperative of ensuring that the international financial system is not tainted or harmed by Iran's abuse. We have also engaged in unprecedented outreach to the international private sector, meeting with more than 40 banks around the world to share information and discuss the risks of doing business with Iran. And we have implemented targeted financial measures against Iranian banks, entities, and individuals engaged in illicit activities.

Diplomatic efforts have also resulted in two unanimous United Nations Security Council Resolutions targeting Iran's pursuit of nuclear capabilities and ballistic missiles. And last October, the world's premier standard-setting body on anti-money laundering and counter-terrorist financing – the Financial Action Task Force – issued a public statement confirming the extraordinary risks to the financial system that accompany doing business with Iran. Further, the Task Force issued an advisory identifying customers and transactions associated with Iran as representing a significant risk factor for financing the proliferation of weapons of mass destruction.

The private sector plays an essential role in this effort. By proactively going beyond their legal requirements to avoid risky business with money launderers, proliferators, and other illicit actors, the international banking sector is augmenting government-imposed measures to isolate these actors financially. Financial institutions do not want to risk their reputations by dealing with such customers, and they understand the dire consequences to their business should they engage in such activity.

We are beginning to see the isolating effect that financial pressure can have on the Iranian regime as the international community counters Iran's financial support for terrorism – a cause to which Iran dedicates hundreds of millions of dollars each year – and its pursuit of nuclear capabilities and ballistic missiles. We have been sharing information with government and private sector leaders about Iran's

deceptive use of the financial system to try to hide its support for these dangerous activities from the law-abiding international community. Many financial institutions worldwide have recognized this risk and have dramatically scaled back or cut off altogether their dealings with Iran – in all currencies.

This financial pressure is amplified by the Iranian regime's economic mismanagement. President Ahmadinejad has failed to deliver on his promises to improve the lot of average Iranians, which is having real consequences:

- Unemployment and inflation rates are up: the regime claims their unemployment rate to be only 11%, whereas most independent experts estimate it to be double that.

- Inflation is on the rise: experts estimate the inflation rate to be close to 40% – well beyond the 16.8% suggested by the regime. Further, Ahmadinejad ordered the Central Bank to cut interest rates far below the inflation rate – an act of economic malpractice – and he fired his central bank governor for questioning this harmful decision.

- Corruption is widespread: the Iranian regime awards lucrative "no-bid" contracts to the Iranian Revolutionary Guard Corps, whose leadership has been sanctioned under UN resolutions.

- Iran's state-owned banks are finding themselves increasingly isolated, threatening the viability of their foreign-based branches and subsidiaries.

- The country's oil revenue reserve fund should be growing to benefit the future of the Iranian people instead of being spent down to mask the effects of the regime's misguided economic policies.

Iran is thus experiencing the consequences of its deceptive financial conduct and defiant policies. Iran's leaders are inflicting hardship on their people and steadily making their country an international pariah regime. Whether to continue down this path of isolation is a choice Iran must make.

Conclusion

These examples of our engagement on issues such as Iraq and Iran illustrate Treasury's evolving and expanding role in our government's national security strategy. Treasury has an important role to play by boosting growth and economic activity in key countries like Iraq, and ensuring that our financial systems are not only safe and sound, but also secure from exploitation by illicit actors like Iran. Our engagement also helps ensure we take a comprehensive view to the security challenges we face – that we examine them not only from a military and political perspective, but from an economic perspective as well.

Looking forward, I see a world in which economic issues will play an even more prominent role in our nation's security, and Treasury will continue to integrate its activities even closer with other national security agencies. To address our security challenges, we must take a broad-based approach that draws from the knowledge and expertise across all of government. As you Cadets step into your future lives of service, during which you will exploit the opportunities and confront the challenges of the 21st century, I encourage all of you to think in these broader terms as you serve and protect our great Nation. I can assure you that your Treasury Department, your transformed Treasury Department, is doing just that every day.

Thank you again for your kind invitation and may God bless you all and your families.

January 29, 2008
HP-787

Statement by Secretary Paulson on House Passage of Economic Growth Legislation

"I commend the House for quick bipartisan action today on an economic growth package that is simple, temporary, broad-based and effective. If enacted quickly, as I hope it will be, the House package will inject money into our economy in time to help create more than 500,000 jobs before the end of the year.

"I am confident that Senate leaders understand that speed and simplicity are key to getting a bipartisan agreement enacted. The time to act is now."

January 30, 2008
HP-788

Remarks by Treasury Under Secretary for International Affairs David H. McCormick at the Council on Foreign Relations

U.S.-China Economic Engagement: The Road to Faster, Deeper Reform

New York – Thank you Paul for that warm introduction, and thanks to all of you for coming this morning. I am grateful to the Council on Foreign Relations for bringing us together to discuss an issue of great long-term importance: U.S.-China economic relations. Indeed, maintaining a mutually beneficial, open, and politically sustainable economic relationship with China is one of the United States' most pressing challenges – and greatest opportunities – in the realm of international economic policy.

The challenge is great because the stakes are high – for the United States, for China, and for the global economy. For the United States, China is the world's fastest growing major market for our goods and services. Since China's accession to the World Trade Organization in 2001, U.S. exports to China have grown five times faster than our exports to the rest of the world.

At the same time, China's prosperity depends on the United States. Last year, American consumers and companies purchased one-fifth of China's exports. Even as China diversifies its export markets, American demand continues to shape China's economy. Investment flows between our two countries are also expanding rapidly. Between just 2002 and 2006, U.S. foreign direct investment (FDI) in China grew from roughly $10 to $22 billion while in 2007 alone, Chinese direct and portfolio investment in the United States totaled nearly $10 billion.

As a consequence of this growth, the U.S.-China economic relationship has been forced to mature very quickly. With the increasing volume of trade and investment, it was inevitable that we would experience a range of frictions as we do in our economic relationships with other major trading partners. These frictions include growing concerns about trade imbalances, product safety, the Chinese government's large holdings of foreign exchange reserves, and China's foreign exchange policies.

While not surprising, these frictions have nevertheless caused some in the United States to question the benefits of maintaining an open and expansive economic relationship with China. The Bush Administration's answer to this defining question is unwavering: We are committed to strengthening our economic relationship with China and opening its markets to create new opportunities for American firms and American workers. In this effort, we are making full use of the policy tools at our disposal, and we have developed new approaches, most notably the Strategic Economic Dialogue (SED) launched by Presidents Bush and Hu in 2006.

In spite of the continuing frustrations and inevitable tensions in our economic relations with China, this Administration is taking a thoughtful and effective approach to accelerating reform and promoting U.S. interests. Would we like more rapid, deeper reform? Of course. But we are making steady progress and bringing clear benefits to America's workers, businesses, and consumers.

China's Growth Challenge

China's growth over the past three decades has been nothing short of miraculous. It has transformed itself from a poor, mostly agrarian, and almost closed economy into the world's third most important trading nation. In the process, China has benefited from economic growth averaging nearly 10 percent per year that has lifted

hundreds of millions of Chinese citizens out of poverty.

The growth model that produced this enormous success has also been highly resource-intensive, and driven by heavy investment in industrial production and exports rather than growth in domestic household consumption. We see evidence that this model is no longer sustainable in China's increasingly wasteful investment, rising inequality, a large and growing current account surplus, and accelerating environmental degradation. We also see evidence of this in weak growth in Chinese employment and in household income growth that lags well behind the rise in GDP.

China's imbalances at home are mirrored by the imbalances China continues to generate abroad. High national saving -- and its counterpart, weak consumer demand -- provide the structural basis for large Chinese trade and current account surpluses that make China's economic growth increasingly dependent upon foreign demand, sometimes creating friction between China and its trading partners.

This is not simply an American critique of China's economy. China's most senior leaders tell us they are committed to addressing the imbalances between growth in rural and urban areas, between the coastal and interior regions, between reliance on domestic and foreign demand to drive growth, between rich and poor households, and between economic development and environmental protection. They are coming to realize, as we do, that their success in addressing these challenges would have enormous benefits for China and the United States.

Exchange Rate Policy

The critical question for U.S. policymakers is how we can best support and encourage this economic transformation. For our part, we understand that we will be judged by our success in helping the Chinese address this rebalancing challenge in a manner that brings continued benefits, while minimizing the risks, to the U.S. economy. China's exchange rate is one issue that has been viewed by some, I think mistakenly, as a litmus test for our success.

The untold story of our approach to China's currency policy is that it is working, albeit more slowly than we would like. Initially, after moving away from a pegged exchange rate in July 2005, China's actions were cautious, with the RMB appreciating slowly. More recently, however, the pace of appreciation has increased sharply, to roughly 7 percent in 2007, and 4 percent in the last three months alone, or 17 percent annualized. Since China abandoned the peg to the dollar, the RMB has appreciated roughly 15 percent against the dollar and 9 percent against other major currencies on a real trade-weighted basis. The foreign exchange market in China is also developing: daily RMB fluctuations are larger, the market is deeper, and we have seen rapid expansion in the use of foreign currency hedging instruments.

Although RMB adjustment is still far from complete, the accelerated pace of appreciation is significant and welcome, and it should continue. China and the United States must be careful not to derail this reform through protectionist actions on either side that risk disrupting the relationship. The leadership and interest of the U.S. Congress on China's currency reform -- and China's economic reform more broadly -- are both needed and welcome. But it is especially important now, during a time of turmoil in global markets, that we remain steadfast in our commitment to an open and expanding trade and investment relationship between the United States and China.

As Secretary Paulson has often said, greater exchange rate flexibility is in China's own interest. The RMB movement that I have noted reflects the Chinese leadership's growing recognition that more rapid exchange rate adjustment allows for more effective management of the Chinese economy, including the risk of rising inflation. A continuation of the recent pace of RMB appreciation is also important to the United States, although it will not eliminate, or even decrease significantly, the U.S. global trade deficit or mitigate the challenges that American industries face from overseas competition. It will, however, remove a major source of perceived unfairness in the U.S.-China economic relationship, permitting us to devote greater attention to other issues with even more significant impact on our economic relationship.

Strategic Economic Dialogue

Under Secretary Paulson's leadership, the Strategic Economic Dialogue has created an unprecedented channel of communication between senior U.S. policymakers and their counterparts at the highest levels of the Chinese government that is focused on doing just that. Specifically, the SED is premised on the fact that China and the United States have shared economic interests and that we benefit from expanding our cooperation over the longer term. Central to our shared interests is leveraging U.S. expertise and support in helping China transition to a new model for economic growth that addresses its imbalances. This reform agenda runs broad and deep, ranging from macroeconomic policy to domestic regulation, investment policy to environmental protection.

For example, to assure China's future growth – without heavy domestic costs and huge trade surpluses – China must put more income in the hands of households and change policies that force these households to save so much of what they earn. This involves increasing the dividend payments from China's profitable companies, including state-owned enterprises, a reform that China has recently started. It also requires a stronger social safety net that reduces the need for Chinese households to over-save for a rainy day or old age. On these issues, we can contribute much in terms of expertise and capabilities in our ongoing dialogue with China's leaders.

To create more sustainable growth, China will also need to develop a vibrant and efficient financial sector, to provide Chinese households and firms with better opportunities to build wealth and hedge risk, and to fuel innovation as an engine of economic growth. Clearly, the American financial services industry has much to offer China in this regard. As you know, we are working to improve access to China's market for the American financial services industry. Like you, we are unsatisfied with the progress to date, but the SED has produced some significant Chinese commitments in financial services, such as China's agreement to allow greater market access in the banking, securities, insurance, and asset management markets. As I have argued to my Chinese counterparts, building a modern financial sector is not an easy task – but foreign participation, and the knowledge and skills that come with it, can play a big role in accelerating this process.

Ensuring markets remain open to investment is every bit as important as ensuring that they remain open to trade, so we are also committed to focusing within the SED on maintaining and expanding investment flows between our two countries. This is a critical component of rebalancing China's future growth from coastal to interior regions. As an example, we are intensifying discussions on the prospects for negotiating a Bilateral Investment Treaty and we have also recently established a U.S.-China Investment Forum to discuss the full range of investment issues that the United States and China face.

The SED has also made important progress in helping China address other barriers to its continued development. For example, in the area of product safety, China recently agreed to allow U.S. quality inspectors to conduct on-site audits of key Chinese exporters, a step that will help China develop improved standards and capabilities for critical export industries. Similarly, the SED has provided a forum to collaborate with China on addressing the terrible environmental cost of rapid growth to its air, soil, and water which looms as a significant challenge to its next chapter of economic prosperity. At last December's SED, the United States and China agreed to work together to tackle this problem by developing an ambitious ten-year plan for cooperation.

The Way Forward

As these examples demonstrate, the SED is focused on critical strategic issues of interest to both of our countries that require long-term policy prescriptions. This is why it is so important that we look past next month, next year, or the next election as we consider our economic engagement with China. In practical terms, that means we have an obligation to turn over to a new Administration a healthy U.S.-China economic relationship and a robust and enduring dialogue capable of continuing the progress I have just described. As I hope I have made clear this morning, I think we're on track. Through the SED we are making progress across a full, rich agenda of opportunities and challenges that are every bit as important to the United States as they are to China.

I understand and share the frustration of those who believe the Chinese are moving too slowly on many issues. On those, we must push. We must both cajole and support. We have been – and must continue to be – firm and clear when engaging with China that accelerated reform is as much in their interests as in ours. And when we are unsuccessful through dialogue in resolving key differences, we will not hesitate to take cases to the WTO or to make full use of WTO-sanctioned trade remedies established under U.S. law. But we must also take care not to vent our frustration in the form of punitive legislation or elevated rhetoric that could ultimately cost the American economy and set back the process of reform in China.

America's economic relationship with China is of equal importance to Republicans and Democrats, Congress and the Executive Branch, this Treasury Secretary and the next. I firmly believe the next Administration will inherit a U.S.-China economic relationship that reflects more meaningful progress across a broader territory than ever before. To be sure, the road ahead is long. But we are taking important steps in the right direction.

Thank you.

January 30, 2008
HP-789

Treasury Expands Sanctions on Zimbabwean Companies and Individuals

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) announced sanctions today against two Zimbabwean entities and two individuals that contribute to the undermining of democratic processes and institutions in Zimbabwe.

"The U.S. financial system is closed to Robert Mugabe, his cohorts and their businesses," said OFAC Director Adam J. Szubin. "Today's designations are part of an increased effort to pressure those who are aiding Mugabe's efforts to cripple Zimbabwe, including through violence and intimidation."

Today's designations include ZIDCO Holdings, a ZANU-PF financial holding company, as well as the ZANU-PF's publishing arm, Jongwe Printing and Publishing Company. Both ZIDCO Holdings and Jongwe Printing and Publishing Company are owned or controlled by key components of the Mugabe regime that have already been designated. Also named today are Happyton Bonyongwe and Leo Mugabe. Happyton Bonyongwe is the Director of Zimbabwe's Central Intelligence Organization (CIO), and is considered Zimbabwe's "spy chief." Leo Mugabe is a Member of the Zimbabwe Parliament and the nephew of Robert Mugabe.

These designations are made pursuant to Executive Order 13391, which authorizes the Secretary of the Treasury to designate any individual or entity that: has engaged in actions or policies that undermine Zimbabwe's democratic processes or institutions; has materially assisted entities or individuals already designated by OFAC; is an immediate family member of an individual already designated pursuant to the Order; or, is owned or controlled by any entity or individual already designated pursuant to the Order. As a result of Treasury's designations, any assets of these individuals and entities that are within the United States or in the possession or control of any U.S. person must be blocked, and U.S. persons are prohibited from dealing with them.

January 30, 2008
HP-790

Secretary Paulson's Remarks on the Economy
Before the Real Estate Roundtable

Washington, D.C. – Good afternoon. Thank you, Chris, and thanks to the Real Estate Roundtable for inviting me. As you know, we have a lot on our economic plate right now. I will give you my perspective and then look forward to hearing your thoughts.

U.S. Economy and Fiscal Growth Package

The U.S. economy is undergoing a significant housing correction. That, combined with high energy prices and capital market turmoil caused economic growth to slow rather markedly at the end of 2007, as reflected in the GDP numbers released this morning. I am confident our economy will continue to grow, although not as rapidly as we have seen in recent years.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. Yet, the risks are clearly to the downside and President Bush knows that economic security is of the utmost importance to the American people. We have been tracking economic signals closely for some time now, and are actively engaged with policymakers around the world as we monitor global markets.

In recent weeks, the potential benefits of quick action to support our economy became clear, and the potential costs of doing nothing too great. So, the President asked me to work with Congress to develop a fiscal growth package to minimize the impact on the real economy as we weather this housing correction. At the outset, the President suggested a few principles to use as a foundation for discussion --- that a fiscal growth plan must be enacted quickly; it must be robust, temporary and broad-based, and must get money into our economy quickly. We found common ground with the Congress in those principles, and began intense discussions.

In eight days the Administration and Democratic and Republican House leadership reached agreement. Yesterday, in additional evidence of bipartisan cooperation and commitment, the House passed a bill based on this agreement. For Washington, this is action at the speed of light, and I am optimistic the next few weeks will be equally productive.

The House bill is a balanced, bipartisan compromise that will provide immediate relief for American families and incentives for businesses to invest and hire. If enacted swiftly, the House bill is expected to help create more than half a million jobs by the end of 2008. We know from experience that both immediate tax relief for income tax payers and incentives for businesses to invest and hire are effective in creating growth and jobs in the short-term.

Speaker Pelosi and Minority Leader Boehner have shown discipline and leadership, and the House has set a high standard. Certainly, House members from both sides of the aisle wanted additional provisions added to the bill. But both Leaders kept this effort limited and focused in order to reach agreement. Strong leadership in the House has provided decisive steps towards quick action to boost the economy.

The task now moves to the Senate. Senators, like their House colleagues, know time is of the essence. I think they also understand that a simple package can move quickly, while a complex package can upset the current balance. If the process bogs down, the American people will lose patience and we will also lose the momentum that's absolutely needed for quick action and quick results. House leaders carefully crafted a balanced agreement. They recognized that a simple plan offered the most expedient and effective path. I am confident Senate leaders will

see the wisdom of this approach, and I don't believe the Senate has any interest in derailing the cooperation and speed with which Washington has acted so far.

If we keep moving along this fast-track, and within a few weeks Congress sends the President a bill he can sign, rebate payments would start in May. But until the President signs a bill into law and checks are in the mail, I won't say that this short-term effort is complete.

And of course we will continue to press for economic policies which are in our country's long-term best interest --- a pro-growth tax system, entitlement reform and a balanced budget. We are addressing a short-term economic need, and the Administration remains committed to vigorous debate with the Congress over the need for longer-term, structural reforms.

Housing Markets

While a swift, simple and substantive fiscal growth package will provide a boost and add to job creation this year, it is not intended or expected to slow down the housing correction. After years of unsustainable home price appreciation, this is a necessary correction. On Monday, the Commerce Department reported that over the 12 months of 2007, new homes sales dropped 41 percent and new home prices declined by 10.4 percent. Other measures also show roughly flat or falling home prices over the last year. The Administration's focus has been --- and in addition to this fiscal growth plan will continue to be --- aggressive action to try to minimize the impact of the housing downturn on homeowners and the real economy by preventing avoidable foreclosures.

Last fall, we encouraged the creation of the HOPE NOW alliance, a coalition representing over 90 percent of the subprime servicing market and non-profit mortgage counseling organizations, trade associations and investors. This industry-wide effort employs multiple tools to reach and help struggling homeowners, including streamlining subprime borrowers into refinancings and loan modifications to avoid a market failure. And they are doing so without asking American taxpayers to pay the bill.

There are promising developments. According to HOPE NOW, the industry assisted 370,000 homeowners in the second half of 2007, and mortgage servicers modified subprime loans during the fourth quarter at a rate three times faster than in the third quarter. In its first two months, HOPE NOW sent over 480,000 letters to at-risk borrowers who had not reached out for help previously. Servicers estimate that, as a result of the first wave of letters approximately 16 percent, or 77,000 homeowners, have called their servicer or a non-profit counselor to see if foreclosure can be avoided.

We will receive regular progress reports in the coming months. As we learn more, we will look for additional measures to reach more borrowers and prevent as many avoidable foreclosures as possible.

The Administration has also, through FHASecure, expanded affordable mortgage options. Working with Congress, we have increased funding for mortgage counselors who assist struggling homeowners. We have also temporarily eliminated taxes on forgiven mortgage debt. But more action is needed in the housing sector, action that is as important as a short-term fiscal growth plan.

We have urged Congress to move quickly to finalize its work on the FHA modernization bill --- that will provide financing for about 250,000 borrowers. Congress should also allow states to issue tax-exempt bonds to raise funds for innovative refinancing programs.

And it is vitally important that Congress pass GSE reform legislation to enhance regulatory oversight for Fannie Mae and Freddie Mac. The House leaders decided to include a temporary increase in the GSEs' conforming loan limits in the economic growth bill. This could be helpful to jumbo mortgage borrowers; however, higher limits are inconsistent with the GSEs' affordable housing mission. Under the House bill, these higher limits expire at the end of this year, and this should not be an excuse for postponing much-needed reform. The House has already passed GSE reform legislation and Senate Banking Chairman Dodd has assured me that he will

take legislation up soon. We will continue to press Congress for this reform and stronger GSE regulatory oversight.

Capital Markets

Predictably, our capital markets are being impacted as we weather the housing correction and uncertainty in the housing sector. Investors' concerns about credit have increased dramatically, and market liquidity has been, in turn, similarly impacted. The plentiful flow of liquidity that fueled the boom in borrowing and leverage across asset classes --- from home mortgages to leveraged buyouts --- has been reduced, with significant consequences.

Short-term funding markets were stressed and inter-bank funding spreads rose to unprecedented levels. Mortgage origination and other asset securitization dropped markedly, adding to the challenges in the housing sector. Given the interconnectedness of our capital markets, other stresses emerged as financial institutions grappled with valuing assets and balance sheets came under pressure.

These developments led to significant actions by major central banks and tremendous financial sector strains. Since August, financial institutions have written off over $153 billion of assets. Numerous issuers and structures have been downgraded and over $136 billion in off-balance sheet assets have been consolidated.

During the past nine weeks, we have also seen some encouraging signs. US financial institutions have raised over $95 billion in new capital. The housing Government Sponsored Entities (GSEs), Freddie Mac and Fannie Mae, have raised equity. A number of our financial institutions have strengthened balance sheets by raising capital from a variety of U.S. and foreign sources.

Our markets are still working through these strains, and certainly your industry has been impacted as well. These events underscore the need for strong market discipline, prudent regulatory policies, and robust risk management. While this transition period is difficult, and will take more time, it is appropriate and reflects a healthy return to fundamentals. I have great confidence in our markets. They have recovered from similar stressful periods in the past, and they will again.

As we work to better understand the causes of the distress in the housing and mortgage markets and the capital market turmoil, some lessons are very clear. For instance, an abundant supply of easy credit and a decline in lending standards were major contributors. Complex and opaque financial instruments and structures, such as the use of conduits and SIVs contributed, as did investor practices and rating agency issues.

Through the President's Working Group on Financial Markets, we are reviewing the underlying policy issues. Our reviews' focus on issues ranging from enhancing risk management, including liquidity and counterparty credit risk, to market infrastructure, to reporting and disclosure, to ratings and investor practices. Working through the current stress is our first concern, getting the long-term policy right is just as important.

We also need to streamline and modernize the patchwork regulatory structure that oversees the mortgage process, provide consumers with clear, understandable mortgage disclosure and bring a higher level of integrity to the mortgage origination process.

Conclusion

I am optimistic that Congress will pass a growth package quickly enough to have a real impact on our economy, to help individuals and families, and to increase business investment now when it is most needed. Our economy is resilient, as are the American people. We will work through this period and share a future of continued opportunity and prosperity.

January 31, 2008
hp-791

Statement by Secretary Paulson on EITC Awareness Day

Washington, DC-- Good morning and welcome. Thanks to all for joining us today as we highlight a valuable, but often overlooked, tax credit that is specifically designed to help working Americans.

The Earned Income Tax Credit, the EITC, was created over thirty years ago as an incentive for working Americans, for the men and women who hold one, sometimes two or three, jobs to make ends meet and to create better lives for themselves and their families. They understand as well as any that hard work brings reward.

By allowing lower-income people to keep more of their own money, EITC helps Americans create doors of opportunity and step through them to higher standards of living.

In 2006, over 22 million taxpayers received almost $44 billion through the EITC, yet the IRS estimates that between 20 and 25 percent of taxpayers who are eligible don't claim the credit. Qualifying taxpayers can claim up to $4,700 dollars, depending on their income and the size of their family, on their 2007 returns. That's money to pay bills and rent, to buy gasoline, books, and clothes; money that can provide a real benefit this spring.

As our economy has begun to slow down, we know that the impact often falls hardest on those struggling to make ends meet. We are working with Congress to quickly enact balanced, bipartisan legislation that will provide immediate rebate payments for working families and incentives for businesses to invest and hire. This boost to our economy will benefit low income taxpayers, this year, and is in addition to the EITC.

The House has passed legislation that is simple, broad-based and temporary. If enacted soon, it will inject money into our economy quickly. The Senate has begun its legislative process as well, and I am concerned that as they add provisions to their bill, there is a real risk that the process will bog down and slow our efforts to get money into the economy.

With timely action, the House economic growth bill would help create more than half a million jobs by the end of 2008. That means even more opportunities for hard-working Americans.

Ensuring that more eligible families receive their EITC is important this year, as it is every year. I encourage people all across America to check to see if you are eligible for the Earned Income Tax Credit. Treasurer Anna Cabral and Acting IRS Commissioner Linda Stiff will provide details on where to get more information.

I also encourage tax professionals, particularly those providing community-based services, to look carefully at eligibility, so that all those who can benefit from the Earned Income Tax Credit, do. When something this simple is so effective, we need to make sure those who can gain this advantage, do.

Thanks to the IRS and all those around the country who are educating people about the Earned Income Tax Credit. You can, and are, helping millions of Americans to help themselves into better lives.

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PRESS ROOM

January 31, 2008
HP-792

Under Secretary for Domestic Finance
Robert K. Steel
Testimony before the Senate Committee on
Banking, Housing and Urban Affairs

Washington - Chairman Dodd, Ranking Member Shelby, Members of the Committee, good morning, I very much appreciate the opportunity to appear before you today to present the Treasury Department's perspective on "Foreclosure Prevention and Neighborhood Preservation." These are important and challenging issues; addressing them will require collaborative work on all our parts, and I look forward to hearing your perspectives and working together.

Let me begin by broadly examining the characteristics of foreclosure, in both good times and bad, then describe how our approach to this issue has developed, and finally provide an update on the progress we are making to address current challenges.

Characteristics of Foreclosure

We are experiencing a period of adjustment in the housing sector of our economy. Fortunately, our economy is resilient and diverse, and our long-term economic fundamentals remain strong. Nevertheless, the Administration recognizes the importance of housing to our economy, and as Secretary Paulson has said many times, the housing decline is the most significant current risk to our economy.

In addition to the housing decline exacting a penalty on economic growth, many individual families will experience firsthand strain due to resetting mortgage rates and home price depreciation. Too many American homeowners face the frightening prospect of losing their home in foreclosure – and a significant number of other families already have. Foreclosures also pose negative externalities, placing hardships on neighboring homes and undermining the financial stability of broader communities and the families who live there. Many homeowners who are paying their mortgages on time face lower property values due to foreclosures in their neighborhood.

The latest available data (from the third quarter of last year) indicate that 2007 was on track for a foreclosure starts rate of 2.7 percent. To put that number into perspective we should recognize that many homes end up in foreclosure every year, even when housing markets are strong. Between 2001 and 2005, for example, the U.S. annual rate of foreclosure starts averaged approximately 1.7 percent, meaning more than 650,000 homeowners began the foreclosure process each year. This baseline rate of foreclosure can result from events such as job loss, credit problems, changes in family circumstances, or other sources of economic instability.

Over the course of the next two years, we expect the foreclosure rate to remain elevated above its historic level. A rising foreclosure rate during a period of housing price depreciation is not surprising. Yet, largely because of relaxed underwriting standards in recent years – particularly in the subprime market – and resetting mortgages, the number of homeowners facing hardship will be higher than during other recent housing downturns.

In total, approximately 1.8 million subprime mortgages are expected to reset over the next two years, but not all will end in foreclosure. Many homeowners will be able to afford their new payments without trouble or may be able to qualify for refinanced, fixed-rate mortgages on their own. In fact, of the 2/28 subprime ARMs originated in 2005, 88 percent had not defaulted as of late last year. Others,

however, have stretched far beyond their means, and unfortunately, foreclosure may be unavoidable. In fact, many loans enter into foreclosure before ever reaching the reset date. A third group of homeowners facing resets falls somewhere in the middle. The challenge is to identify the homeowners in this middle group, who with a focused and timely response can stay in their homes.

Treasury's Response

The Administration's goal is to prevent foreclosures for homeowners. It is not about assisting lenders or bailing out investors.

Our response is based upon a three point plan: (1) to better identify, reach and connect with counselors those at-risk homeowners who can be helped, (2) to assist in developing additional products for homeowners, and (3) to increase the speed and efficiency of moving these at-risk borrowers into affordable solutions.

Whenever facing a challenging public policy issue, such as this one, the first step is full understanding. While we are continuing to learn, our response to date represents months of listening Congress to leading academics, servicers, mortgage counselors, lenders, homeowners, and investors to understand the causes of foreclosures and the best ways to help people keep their homes.

Last March, in a meeting hosted by Chairman Bair at the Federal Deposit Insurance Corporation (FDIC), we heard from several housing experts to help us understand the scope and scale of these challenges. In April and May, the Treasury Department hosted two large meetings, inviting all the relevant regulators to help us gain a greater understanding of the problem and map out potential policy responses. Over the course of the summer months, we sought the sound counsel of outside experts. We spoke with dozens of individuals, including leading counselors, mortgage servicers, academics, housing and consumer advocates, and other experts, such as the late Ned Gramlich, a former Federal Reserve Governor and prescient housing scholar who predicted the significance of these challenges before anyone else.

On August 31, President Bush announced an aggressive, comprehensive plan to help at-risk homeowners stay in their primary residences. The President charged Secretary Jackson and Secretary Paulson to lead this effort.

As the Treasury Department and the Department of Housing and Urban Development (HUD) met with a variety of mortgage market participants and non-profit credit counselors in the late summer and early fall of 2007, it became clear that while many market participants were working diligently on their own trying to reach and help homeowners, but it was inadequate given the scale and pace of pending resets.

On October 10, HOPE NOW was formed as an alliance among counselors, servicers, investors, and other mortgage market participants to maximize outreach efforts to at-risk homeowners and help them stay in their homes. The Alliance grew and today servicers participating in HOPE NOW comprise over 94 percent of the subprime mortgage loan market.

HOPE NOW adopted a centralized hotline for telephonic foreclosure prevention counseling (888-995-HOPE, operated by the Homeownership Preservation Foundation). Expanding and sustaining the capacity of the HOPE hotline was essential as outreach efforts increased. Servicers and investors now reimburse HOPE hotline counselors $100 for every counseling session completed. This is an important step toward maintaining a sustainable funding model for counseling, as government and foundation funding have traditionally been the sole source of counselor support.

Additionally, HOPE NOW servicers are contacting all adjustable-rate mortgage borrowers at a minimum of 120 days prior to their mortgage reset. This will allow servicers' early identification of borrowers who will have challenges – greatly increasing their options for help. While some servicers were already doing this, we believe it was an important step to standardize this practice for all HOPE NOW servicers.

Furthermore, through coordinated outreach efforts, HOPE NOW members are reaching out to all at-risk borrowers and offering help through both mortgage servicers and non-profit credit counselors. A direct mail campaign began in November to contact all borrowers who are 60 days or more delinquent on their loans with no prior servicer contact. This letter informs them that help is available.

Secretary Paulson has also encouraged HOPE NOW members to expand and expedite mortgage solutions for at-risk borrowers. On December 6, President Bush announced a new private-sector framework to streamline the process for modifying and refinancing subprime mortgages for eligible homeowners. These new industry guidelines, issued by the American Securitization Forum (ASF), created an efficient process for identifying borrowers who qualify for refinancing or loan modifications. This, in turn, will free up resources and allow mortgage servicers to focus on those borrowers who require more in-depth analysis.

Lastly, HOPE NOW servicers and counselors have finalized best practices that will increase efficiency in communication among servicers, counselors and homeowners. Through these best practices, including the continued development of cross-industry technology, more homeowners will be helped as counselors are more effectively able to connect with servicers.

Early Progress

As Secretary Paulson has said, we are committed to measuring the success of this program as it is implemented. Before the establishment of HOPE NOW the industry did not have a thorough, standardized set of metrics with which to evaluate servicers' loss-mitigation performance or to evaluate counselors' effectiveness. Today, the Alliance is standardizing a variety of measures which policymakers, homeowners and investors need in order to monitor performance. These performance measurements include data such as the number of loans in default, outcomes for these loans, and success rates for modifications and refinances. These metrics will allow us to identify categories of borrowers who can be helped, determine successful treatments, and measure the rate of successful outcomes.

Early sets of numbers have already been reported, and these demonstrate that material progress is being made.

For instance, early data indicate that Alliance members are identifying and connecting with more at-risk borrowers than just a few months ago.

- Since its launch, HOPE NOW has worked to increase significantly the awareness and capacity of the HOPE hotline – in August the hotline was receiving an average of 625 phone calls a day; the HOPE hotline is now receiving 4,000 new phone calls a day. That is a 540 percent increase.
- Moreover, in the first two months of a new monthly mailing campaign, HOPE NOW and its members have mailed 483,000 letters to delinquent homeowners who had previously avoided contact, with a response rate to date of over 16 percent. That is an estimated 77,000 borrowers who called for help after receiving a letter.

In addition to outreach, new affordable mortgage solutions are being developed to help homeowners.

- On August 31, the Administration announced FHASecure to offer homeowners foreclosure alternatives; since then, over 75,000 Federal Housing Administration (FHA) insured loans have been closed putting over $10 billion to work. In addition, it is estimated that about 100,000 more applications are in the pipeline.
- Just last month, Congress passed a temporary mortgage debt tax relief act that will provide homeowners relief from taxes that would have otherwise been due from principal forgiveness. This tax relief will help homeowners avoid nearly $200 million in taxes a year for the next three years.
- The Administration has advocated temporarily raising the cap on tax-exempt bonds for state housing authorities to help borrowers refinance. This proposal would increase the total annual cap on existing programs by $15 billion over three years, with this extra cap targeted at refinancing existing loans of subprime borrowers. This is important because real estate markets

are regional and states are well-positioned to tailor programs that meet the specific needs of their communities.

We also have made a great deal of progress in increasing the speed and efficiency of moving borrowers into affordable solutions. The ASF program announced last month is helping fast-track eligible borrowers into a refinancing or loan modification, and it is freeing up resources, allowing servicers and counselors to focus on borrowers who need detailed case-by-case help. The ASF streamlined plan is only one part of our effort, but we expect the results to show a meaningful increase in the number of modifications and refinances as reporting begins.

The Mortgage Bankers Association and HOPE NOW have both made good progress in helping us evaluate performance to date. Although a more in-depth analysis of recent activity, including the beginning progress of the fast-track plan, will be available in the coming weeks and months, HOPE NOW reported that:

- The industry helped 370,000 homeowners with subprime loans in the second half of 2007 through modifications or new repayment plans, and 120,000 of those homeowners received modifications.
- Moreover, the rate of modifications of subprime loans tripled from the third quarter to the fourth quarter of calendar year 2007, and even more are expected as we move forward in 2008 and the ASF framework begins to take effect.

The Administration also has requested that the Congress do its part and we are appreciative that significant progress has been made. As you know, the Congress appropriated an additional $180 million to NeighborWorks to fund counselor networks. We also applaud the swift action taken by Congress to pass the President's tax relief proposal, which was signed into law in December.

FHA modernization is moving through the Congress, and we are hopeful that it will reach the President's desk soon. Additionally, government sponsored enterprise (GSE) reform has cleared the House of Representatives, and we look forward to working with this Committee as Members consider legislation on the subject. The Treasury Department also looks forward to working with the Congress on the Administration's proposal to allow state housing authorities to issue tax-exempt bonds to help refinance borrowers into affordable mortgage products.

Conclusion

Mr. Chairman, in conclusion, let me thank you for holding this hearing. Under the President's leadership, the Administration is working diligently to help mitigate the impact of rising foreclosures on homeowners and the economy. We have made substantial progress since August and there is much more work to do. We will continue to learn as we move forward and look for additional measures to help avoid preventable foreclosures.

Thank you and I look forward to your questions.

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January 31, 2008
HP-793

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 the media:

Who
U. S. Treasury Assistant Secretary Phillip Swagel

What
Economic Media Briefing

When
Friday, February 1, 2008, 11:00 a.m. EST

Where
Treasury Department
Media Room (Room 4121)
1500 Pennsylvania Ave, NW
Washington, D.C.

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.

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January 31, 2008
HP-794

Treasury, IRS Provide Transition Guidance on Pension Protection Act Funding Rules

Washington, D.C.--The Treasury Department and the Internal Revenue Service today issued guidance that relates to new pension funding rules that were included in the Pension Protection Act of 2006.

Notice 2008-21 announces that none of the proposed funding regulations will be effective before the first plan year beginning on or after January 1, 2009, although employers may rely on these regulations during 2008. For plan years beginning before January 1, 2009, the notice provides that employers may generally rely on a reasonable interpretation of the funding rules in the statute and may rely on the proposed regulations for this purpose.

The notice also provides transitional relief to small plans for purposes of applying the applicable benefit restrictions for underfunded pension plans for 2008.

REPORTS

- Notice 2008-21

Part III – Administrative, Procedural and Miscellaneous

Transition Guidance for New Funding Rules and Funding-Related Benefit Limitations under PPA '06

Notice 2008-21

I. PURPOSE

This notice announces a later effective date than originally proposed for certain proposed regulations under §§ 430 and 436 of the Internal Revenue Code (Code), as added by the Pension Protection Act of 2006, Public Law 109-280 (PPA). In addition, this notice provides transitional guidance for 2008 under § 436 for small plans with end-of-year valuation dates.

II. BACKGROUND

Section 412 provides minimum funding requirements that generally apply for defined benefit pension plans. Section 430, which was added by PPA, specifies the minimum funding requirements that apply to single employer pension plans (including multiple employer plans) pursuant to § 412.

Section 430(h)(3) provides rules regarding the mortality tables to be used for purposes of determining any present value or making any other computation under § 430. Section 430(h)(3)(C) provides rules for a plan sponsor's use, with the approval of the Secretary, of employer-specific substitute mortality tables in lieu of the standard mortality tables that are otherwise used under § 430(h)(3)(A). On May 31, 2007, proposed regulations under § 430(h)(3)(C) were published in the Federal Register as § 1.430(h)(3)-2 (72 FR 29456). Rev. Proc. 2007-37, 2007-25 I.R.B. 1433, sets forth standards and procedures for obtaining approval to use substitute mortality tables.

Section 430(f) provides for certain funding balances referred to as the prefunding balance and the funding standard carryover balance to be used to reduce the otherwise applicable minimum required contribution for a plan year. On August 31, 2007, proposed regulations under § 430(f) were published in the Federal Register as § 1.430(f)-1 (72 FR 50544).

Section 401(a)(29) requires that a defined benefit plan (other than a multiemployer plan) satisfy the requirements of § 436. Section 436 sets forth a series of limitations on the accrual and payment of benefits under an underfunded plan. Section 436(b) places limitations on the payment of plant shutdown benefits and other unpredictable contingent event benefits, § 436(c) places limitations on plan amendments that increase

liabilities for benefits, § 436(d) places limitations on the payment of accelerated benefit distributions, and § 436(e) places limitations on benefit accruals. These limitations are applied based on the plan's adjusted funding target attainment percentage (AFTAP) for the plan year, as certified by the plan's enrolled actuary.

Section 436(j) provides definitions that are used under § 436, including the definition of a plan's AFTAP. In general, a plan's AFTAP is based on the plan's funding target attainment percentage (FTAP) under § 430(d)(2) for the plan year. However, the plan's AFTAP is determined by adding the aggregate amount of purchases of annuities for employees other than highly compensated employees (within the meaning of § 414(q)) made by the plan during the two preceding plan years to the numerator and the denominator of the fraction used to determine the FTAP.

Section 436(h) sets forth a series of presumptions that apply during the portion of the plan year that is before the plan's enrolled actuary has certified the plan's AFTAP for the year. Under § 436(h)(3), if any of the § 436 limitations did not apply to the plan for the preceding year, but the AFTAP of the plan for the preceding year was not more than 10 percentage points greater than the percentage that would have caused a limitation to apply to the plan for the preceding year and, as of the first day of the 4th month of the current plan year, the enrolled actuary of the plan has not certified the actual AFTAP for the current plan year, then, until the enrolled actuary certifies the plan's actual AFTAP for the current plan year, the plan's AFTAP for the current plan year is presumed to be equal to 10 percentage points less than the AFTAP of the plan for the preceding plan year. Under § 436(h)(2), if the plan's enrolled actuary has not certified the plan's AFTAP by the first day of the 10th month of the current plan year, the plan's AFTAP for the current plan year is conclusively presumed to be less than 60 percent as of that day.

Section 430(g)(1) provides that all determinations made under § 430 for a plan year (including the determination of a plan's FTAP and AFTAP) must be made as of the plan's valuation date. Section 430(g)(2) provides that, other than for small plans with 100 or fewer participants (determined as provided in § 430(g)(2)(B) and (C)), the valuation date for a plan year must be the first day of the plan year.

Section 436(k) provides that, for purposes of § 436, in the case of plan years beginning in 2008, the FTAP for the preceding plan year may be determined using such methods of estimation as the Secretary may provide.

Proposed regulations under § 436 were published as § 1.436-1 on August 31, 2007 (72 FR 50544)).[1] Section 1.436-1(j)(2) and (3) of the proposed regulations would provide rules for determining the FTAP and AFTAP for purposes of applying the § 436 benefit limitations. Section 1.436-1(j)(3)(iii)(B) provides that, for purposes of determining the plan's AFTAP for the first year § 436 applies to the plan, the adjusted funding target is equal to the current liability determined pursuant to § 412(l)(7) as of the plan's valuation date for the plan year that precedes the first plan year for which § 436 applies to the

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[1] A correction notice was published with respect to this notice of proposed rulemaking in the Federal Register dated November 9, 2007 (72 FR 63528).

plan, increased by the aggregate amount of purchases of annuities for employees other than highly compensated employees (as defined in § 414(q)) which were made by the plan during the preceding 2 plan years.

Proposed § 1.436-1(j)(3)(iv) provides that, in any case in which the plan's enrolled actuary has not issued a certification of the AFTAP of the plan for the plan year preceding the plan year § 436 first applies to the plan (the pre-effective plan year), the AFTAP of the plan for the plan year is presumed to be less than 60 percent until the AFTAP of the plan for that pre-effective plan year has been certified. Under the proposed regulations, this rule applies for purposes of § 1.436-1(b) and (c) at the beginning of the first plan year that § 436 applies to the plan and applies for purposes of § 1.436-1(d) and (e) as of the first day of the fourth month of the first plan year that § 436 applies to the plan. The guidance set forth in the proposed § 436 regulations with respect to application of these presumptions does not address how the rules of § 436(h) apply to a plan with a valuation date that is not the first day of the plan year. See proposed § 1.436-1(h)(5).

On December 31, 2007, proposed regulations under §§ 430(d), 430(g), 430(h), and 430(i) were published in the Federal Register (72 FR 74215). Those regulations are proposed to apply to plan years beginning on or after January 1, 2009.

III. TRANSITIONAL GUIDANCE

A. Delay of effective date of regulations under §§ 430(f), 430(h)(3)(C), and 436

In order to maintain a uniform effective date for guidance under § 430, this notice announces that, when regulations proposed under § 1.430(f)-1 (regarding maintenance of certain funding balances) and § 1.430(h)(3)-2 (regarding substitute mortality tables) are finalized, those final regulations will not apply to plan years beginning before January 1, 2009.[2] In addition, because of the close interaction between the § 430 and § 436 rules and requirements, when regulations proposed under § 1.436-1 are finalized, those final regulations also will not apply to plan years beginning before January 1, 2009. For plan years beginning during 2008, taxpayers must follow applicable statutory provisions and can rely on the proposed regulations for compliance with those statutory provisions. Taking into account the items with respect to which guidance is provided in this Part III(A), the Service will not challenge a reasonable interpretation of an applicable statutory provision under § 430 or 436 for plan years beginning during 2008.

In applying the statutory provisions of §§ 430 and 436 for plan years beginning during 2008, taxpayers should note the following:

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[2] It is planned that, when proposed § 1.430(h)(3)-1 (which provides generally applicable mortality tables) is finalized, that section will apply to plan years beginning on or after January 1, 2008, as originally proposed.

•Although § 1.430(h)(3)-2 will not apply to plan years beginning before January 1, 2009, taxpayers can use substitute mortality tables for plan years beginning during 2008 only if those mortality tables are approved by the Service under the procedures set forth in Rev. Proc. 2007-37.

•Under § 430(g)(3)(B), the use of averaging methods in determining the value of plan assets is permitted only in accordance with methods prescribed in Treasury regulations. Accordingly, under current law, for plan years beginning in 2008, taxpayers cannot use asset valuation methods other than fair market value (as described in § 430(g)(3)(A)) except as provided in the Treasury regulations. The final regulations will permit the averaging method set forth in the proposed regulations to apply for plan years beginning during 2008.

• Under § 436(k), for purposes of § 436, in the case of plan years beginning in 2008, the FTAP for the preceding plan year may be determined using such methods of estimation as the Secretary may provide. Thus, methods of estimating the FTAP for the 2007 plan year can be used for purposes of applying the rules of § 436 for the 2008 plan year only if those methods are permitted in Treasury regulations. Final regulations will permit the estimation methods set forth in the proposed regulations to be used for the 2008 plan year, and will also permit the rules set forth in Part III(B) to be used for this purpose for small plans with end-of-year valuation dates. Taxpayers should not assume that other methods will be permitted except as set forth in published guidance.

For plan years beginning during 2008, benefit restrictions under § 436(d) and (e) will apply beginning with the first day of the fourth month of the plan year if no certification of the plan's AFTAP for either the prior plan year or the current plan year is received by that date. In addition, in the case of a plan amendment or plant shutdown or other unpredictable contingent event occurring on or after the first day of a plan year beginning during 2008, the benefit limitations of § 436(b) and (c) must be applied based on the AFTAP certified for the current plan year, or, if no such certification has yet been received, on the AFTAP certified for the prior plan year except as provided under § 436(h)(2) or § 436(h)(3). Without the transition guidance provided in Part III(B) of this notice, the enrolled actuary's certification of the prior year AFTAP for a small plan with an end of year valuation date could not readily be made before these rules would apply. Therefore, in the absence of such transition guidance, the AFTAP of such a plan for the plan year beginning in 2008 would be presumed to be less than 60 percent as of the first day of the fourth month of that plan year for purposes of the limitations under § 436(d) and (e) (and the AFTAP of such a plan would generally be considered to be less than 60 percent in the case of a plan amendment or plant shutdown or similar event as of the first day of the 2008 plan year pursuant to the rules of § 436(b) and (c)).

B. Transition rule for application of § 436 benefit limitations by small plans with end of the plan year valuation dates

In the case of a plan that, under § 430(g), has a valuation date that is the last day of the plan year for each of the plan years beginning in 2006, 2007, and 2008, for purposes of

applying the benefit limitations of § 436 for the plan year beginning during 2008, a certification of the plan's AFTAP for the prior plan year (the 2007 plan year) is permitted to be made by determining the FTAP for the 2007 plan year as follows:

•The FTAP for the 2007 plan year is equal to a fraction (expressed as a percentage), the numerator of which is the value of net plan assets as determined below, and the denominator of which is the plan's current liability determined pursuant to § 412(l)(7) on the valuation date for the second plan year that begins before 2008 (the 2006 plan year), including the increase in current liability for the 2006 plan year.

•For purposes of determining the FTAP for the 2007 plan year, the value of net plan assets is determined as the value of plan assets under § 412(c)(2) as in effect for the 2006 plan year, adjusted as follows: (1) contributions made for the 2006 plan year are taken into account, regardless of whether those contributions are made during the plan year or after the end of the plan year and within the period specified under § 412(c)(10); (2) the value of plan assets taking into account the amount of contributions made for the 2006 plan year is increased or decreased, as necessary, so that it is neither less than 90 percent of the fair market value of plan assets nor greater than 110 percent of the fair market value of plan assets on the valuation date for the 2006 plan year (taking into account assets attributable to contributions for the 2006 plan year); and (3) the plan's funding standard account credit balance as of the end of the 2006 plan year is subtracted (unless the value of plan assets is greater than or equal to 90 percent of the plan's current liability determined under § 412(l)(7) on the valuation date for the 2006 plan year).

A plan that determines the prior year AFTAP for the 2008 plan year in accordance with the rules of this Part III(B) cannot increase plan assets for purposes of this computation through elective reduction of the 2008 prefunding balance. If the plan sponsor wishes to increase plan assets for purposes of determining the prior year AFTAP through elective reduction of the prefunding balance, the plan sponsor should use generally applicable rules for determination of the prior year AFTAP (which would require use of the plan's 2007 valuation rather than the plan's 2006 valuation).

IV. COMMENTS REQUESTED AND FUTURE REGULATIONS

The transitional guidance provided in Part III applies for plan years beginning in 2008. Section 2(c)(2)(F) of both S. 1974 (passed by the Senate on December 19, 2007) and H.R. 3361 (as introduced in the House of Representatives), which would provide technical corrections to provisions enacted under PPA, would add a new provision to § 436 to provide the Secretary of the Treasury with authority to prescribe rules for the application of § 436 to plans with valuation dates other than the first day of the plan year. If statutory authority similar to that in these technical correction provisions is enacted, the IRS and the Treasury Department are considering including rules in the final regulations substantially similar to those set forth in Part III(B) for the determination of the prior year AFTAP for a plan with an end-of-year valuation date with respect to plan years after 2008. Similarly, if such authority is enacted, the IRS and the Treasury

Department are considering including rules in the final regulations under which the certification of an AFTAP as of the last day of the prior plan year will be treated as the certification of the AFTAP for the current plan year for a plan with an end-of-year valuation date. The IRS and the Treasury Department are not contemplating any additional special rules under § 436 for small plans that have a valuation date other than the first day of the plan year. Thus, a plan with a mid-year valuation date may have difficulty in obtaining the required actuarial certification in time to avoid the imposition of benefit limitations under § 436. Comments are requested regarding the proposals set forth in this Part IV and whether there is a need for any other special rules for plans with valuation dates other than the first day of the plan year.

Written comments should be submitted by April 21, 2008. Send submissions to CC:PA:LPD:DRU (Notice 2008-21), Room 5203, Internal Revenue Service, POB 7604 Ben Franklin Station, Washington, D.C. 20044. Comments may be hand delivered between the hours of 8 a.m. and 4 p.m., Monday through Friday, to CC:PA:LPD:DRU (Notice 2008-21), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC, or sent electronically via the Federal eRulemaking portal at *http://www.regulations.gov* (Notice 2008-21). All comments will be available for public inspection.

DRAFTING INFORMATION

The principal authors of this notice are David Ziegler of the Employee Plans, Tax Exempt and Government Entities Division, and Lauson C. Green and Linda S. F. Marshall of the Office of the Division Counsel/Associate Chief Counsel (Tax Exempt and Government Entities). For further information regarding this notice, please contact Mr. Ziegler via e-mail at RetirementPlanQuestions@irs.gov, or you may contact Mr. Green and Ms. Marshall at (202) 622-6090 (not a toll-free number).

February 1, 2008
HP-795

Treasury To Hold Briefing on G7 Finance Ministers Meeting

Under Secretary David H. McCormick will hold an on-camera briefing Tuesday on the upcoming G7 Finance Ministers meeting.

Who
Under Secretary David H. McCormick

What
Briefing on G7 Finance Ministers Meeting

When
Tuesday, February 5, 10:00 a.m. EST

Where
U.S. Treasury Department
Media Room (4121)
1500 Pennsylvania Avenue, NW
Washington, D.C.

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.

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February 1, 2008
HP-796

Treasury, IRS Provide Guidance on Backloading in Pension Plans

Washington, D.C.--The Treasury Department and the Internal Revenue Service (IRS) today issued Revenue Ruling 2008-7 that addresses the application of the accrual rules for pension plans under section 411(b)(1) of the Internal Revenue Code (commonly referred to as "backloading" rules).

Revenue Ruling 2008-7 analyzes a traditional pension plan that was converted into a cash balance pension plan prior to the effective date of the new conversion requirements under the Pension Protection Act of 2006. The scenario analyzed in the revenue ruling is one in which certain participants had their pensions determined using the greater of (1) the benefit under a continuation of the pre-conversion plan formula for a limited number of years after the conversion date and (2) the benefit under the new cash balance formula.

The ruling illustrates how, under the current regulations, the backloading rules apply to this scenario. The ruling provides relief to ensure that plans that have requested or received a determination letter from the IRS and certain other plans will not be disqualified for plan years beginning before January 1, 2009 solely because the plan provides benefits based on the greatest of two or more formulas.

In addition, Treasury and the IRS anticipate proposing amendments to the regulations that will allow separate testing of backloading with respect to the scenario under the revenue ruling and other "greater of" formulas. It is expected that the regulations will be issued soon and will be proposed to be effective for plan years beginning on or after January 1, 2009.

REPORTS

- Rev. Ruling 2008-7

Part I

Section 411. – Minimum Vesting Standards

26 CFR 1.411(b)-1: Accrued benefit requirements.

(Also, § 7805; § 301.7805-1.)

Rev. Rul. 2008-7

ISSUE

Does the defined benefit plan described below that was converted from a traditional benefit formula to a lump sum-based benefit formula satisfy the accrual rules of § 411(b)(1)(A), (B), and (C) of the Internal Revenue Code for the 2002 plan year?

FACTS

Plan A is a defined benefit pension plan that (prior to the amendment described below) provided a normal retirement benefit payable in the form of a straight life annuity commencing at the age 65 normal retirement age under the plan equal to the product of 1.1% of average compensation for the three consecutive years of service with the highest such average multiplied by the number of years of service at normal retirement age. Under Plan A, the accrued benefit (prior to the amendment described below) of a participant at any point prior to attainment of normal retirement age is the benefit, payable in the form of a straight life annuity commencing at the age 65 normal retirement age, equal to the product of 1.1% of the participant's highest average compensation at such point multiplied by the participant's number of years of service at such point. Plan A provides that an employee commences participation in the plan on the first day of the first month after commencing employment, or, if later, the first day of the first month following attainment of age 21.

Plan A was amended in 2001 to change the plan's benefit formula effective for plan years beginning on or after January 1, 2002. The new benefit formula is a "lump sum-based" benefit formula as further described below. Under the lump sum-based benefit formula, a hypothetical account is created for each participant. For participants who were employees on December 31, 2001, the opening account balance was equal to the actuarial present value of the participant's accrued benefit determined as of that date. Under Plan A, this actuarial present value was determined using the applicable interest rate, post-

retirement mortality using the applicable mortality table specified under § 417(e)(3) for 2002, and no pre-retirement mortality. Thereafter, the hypothetical account balance is credited with hypothetical interest at the rate of interest on 3-year Treasury Constant Maturities for the month prior to the first day of the plan year plus 25 basis points (for the 2002 plan year, the rate of interest was determined as 3.87%, which is 3.62%, the yield on 3-year Treasury Constant Maturities for December 2001, plus 25 basis points). Additionally, the hypothetical account for each participant is credited at the end of each accrual computation period (which is the plan year) with pay credits that are determined as a percentage of compensation for the participant for the plan year. The percentage is determined, based upon the age of the participant at the beginning of the plan year, in accordance with the following table:

Age at Beginning of Year	Percentage
25 or less	3
26-40	4
41-50	5
51-60	6
61 or more	7

The annual benefit payable at the age 65 normal retirement age under the new benefit formula is determined by converting the hypothetical account balance at that time to a straight life annuity. The plan provides for the conversion to a straight life annuity to be made using the applicable interest rate and applicable mortality table, defined as the 30-year Treasury rate as published by the Commissioner of Internal Revenue under § 417(e)(3) for the month prior to the beginning of the plan year, and the mortality table published by the Commissioner under § 417(e)(3). For 2002, that applicable interest rate was 5.48% and that applicable mortality table was the mortality table set forth in Revenue Ruling 2001-62, 2001-2 C.B. 632.

The amendment to Plan A also changed how the accrued benefit of a participant is determined under the plan. For participants who were employed on December 31, 2001, had completed 15 years of service, and had attained age 50 as of that date, Plan A provides that the accrued benefit will be the greater of the accrued benefit provided by the hypothetical account balance at the age 65 normal retirement age (determined as described above) and the accrued benefit determined under the pre-conversion formula as in effect on December 31, 2001, taking into account compensation and years of service after December 31, 2001, but not taking into account compensation and years of service after December 31, 2005. Plan A refers to such participants as grandfathered participants. The accrued benefit provided by the hypothetical account balance at the age 65 normal retirement age is equal to the hypothetical account balance at that age (including projected interest credits under the plan to age 65), converted to a

straight life annuity commencing at age 65 using the applicable interest rate and applicable mortality table.

For participants who were employed on December 31, 2001, and who either had not completed 15 years of service or had not attained age 50 as of that date (i.e., participants who are not grandfathered participants), Plan A provides that the accrued benefit at any point in time is determined as the greater of (1) the accrued benefit determined under the terms of the plan under the pre-conversion formula immediately before the amendment, but taking into account only service and compensation through December 31, 2001, and (2) the accrued benefit provided by the hypothetical account balance at the age 65 normal retirement age (determined as described above). Accordingly, compensation increases and years of service after December 31, 2001, are not taken into account in determining the accrued benefit under the pre-conversion formula.

For all new participants (i.e., those employees who commenced participation on or after January 1, 2002), the accrued benefit at any point is the accrued benefit provided by the hypothetical account balance at the age 65 normal retirement age (determined as described above).

LAW

Section 401(a)(7) provides that a trust is not a qualified trust under § 401 unless the plan of which such trust is a part satisfies the requirements of § 411 (relating to minimum vesting standards).

Section 411(a) requires a qualified plan to provide that an employee's right to the normal retirement benefit is nonforfeitable upon attainment of normal retirement age and that an employee's right to his or her accrued benefit is nonforfeitable upon completion of the specified number of years of service under one of the vesting schedules set forth in § 411(a)(2). Section 411(a) also requires that a defined benefit plan satisfy the requirements of § 411(b)(1).

Section 411(a)(7)(A)(i) defines a participant's accrued benefit under a defined benefit plan as the employee's accrued benefit determined under the plan, expressed in the form of an annual benefit commencing at normal retirement age, subject to an exception for § 411(c)(3). Under § 411(c)(3), the accrued benefit is the actuarial equivalent of the annual benefit commencing at normal retirement age in the case of a plan that does not express the accrued benefit as an annual benefit commencing at normal retirement age.

Section 1.411(a)-7(a)(1) of the Income Tax Regulations provides that, for purposes of § 411 and the regulations thereunder, the accrued benefit of a participant under a defined benefit plan is either (A) the accrued benefit determined under the plan if the plan provides for an accrued benefit in the form of an annual benefit commencing at normal retirement age or (B) an annual

benefit commencing at normal retirement age which is the actuarial equivalent (determined under § 411(c)(3) and § 1.411(c)-1) of the accrued benefit under the plan if the plan does not provide for an accrued benefit in the form of an annual benefit commencing at normal retirement age.

Section 411(b)(1) provides that a defined benefit plan must satisfy one of the three accrual rules of § 411(b)(1)(A), (B), and (C) with respect to benefits accruing under the plan. The three accrual rules are the 3% method of § 411(b)(1)(A), the 133 1/3% rule of § 411(b)(1)(B), and the fractional rule of § 411(b)(1)(C).

Section 411(b)(1)(A) provides that a defined benefit plan satisfies the requirements of the 3% method if, under the plan, the accrued benefit payable upon the participant's separation from service is not less than (A) 3% of the normal retirement benefit to which the participant would be entitled if the participant commenced participation at the earliest possible entry age under the plan and served continuously until the earlier of age 65 and the normal retirement age under the plan, multiplied by (B) the number of years (not in excess of 33 1/3 years) of his or her participation in the plan. Section 411(b)(1)(A) provides that, in the case of a plan providing retirement benefits based on compensation during any period, the normal retirement benefit to which a participant would be entitled is determined as if the participant continued to earn annually the average rate of compensation during consecutive years of service, not in excess of 10, for which his or her compensation was highest. Section 411(b)(1)(A) also provides that Social Security benefits and all other relevant factors used to compute benefits are treated as remaining constant as of the current plan year for all years after the current year.

Section 411(b)(1)(B) provides that a defined benefit plan satisfies the requirements of the 133 1/3% rule for a particular plan year if, under the plan, the accrued benefit payable at the normal retirement age is equal to the normal retirement benefit, and the annual rate at which any individual who is or could be a participant can accrue the retirement benefits payable at normal retirement age under the plan for any later plan year is not more than 133 1/3% of the annual rate at which the individual can accrue benefits for any plan year beginning on or after such particular plan year and before such later plan year.

For purposes of applying the 133 1/3% rule, § 411(b)(1)(B)(i) provides that any amendment to the plan which is in effect for the current year is treated as in effect for all other plan years. Section 411(b)(1)(B)(ii) provides that any change in an accrual rate which does not apply to any individual who is or could be a participant in the current plan year is disregarded. Section 411(b)(1)(B)(iii) provides that the fact that benefits under the plan may be payable to certain participants before normal retirement age is disregarded. Section 411(b)(1)(B)(iv) provides that Social Security benefits and all other relevant

factors used to compute benefits are treated as remaining constant as of the current plan year for all years after the current year.

Section 411(b)(1)(C) provides that a defined benefit plan satisfies the fractional rule if the accrued benefit to which any participant is entitled upon his or her separation from service is not less than a fraction of the annual benefit commencing at normal retirement age to which the participant would be entitled under the plan as in effect on the date of separation if the participant continued to earn annually until normal retirement age the same rate of compensation upon which the normal retirement benefit would be computed under the plan, determined as if the participant had attained normal retirement age on the date on which any such determination is made (but taking into account no more than 10 years of service immediately preceding separation from service). The fraction is a fraction, not exceeding 1, the numerator of which is the total number of the participant's years of participation in the plan (as of the date of separation from service) and the denominator of which is the total number of years the participant would have participated in the plan if the participant separated from service at normal retirement age. Section 411(b)(1)(C) also provides that Social Security benefits and all other relevant factors used to compute benefits are treated as remaining constant as of the current plan year for all years after the current year.

Section 1.411(b)-1(a)(1) provides that a defined benefit plan is not a qualified plan unless the method provided by the plan for determining accrued benefits satisfies at least one of the three alternative methods in § 1.411(b)-1(b) for determining accrued benefits with respect to all active participants under the plan. The three alternative methods are the 3% method, the 133 1/3% rule, and the fractional rule. A defined benefit plan may provide that accrued benefits for participants are determined under more than one plan formula. Section 1.411(b)-1(a)(1) provides that, in such a case, the accrued benefits under all such formulas must be aggregated in order to determine whether or not the accrued benefits under the plan for participants satisfy one of these methods. Under § 1.411(b)-1(a)(1), a plan may satisfy different methods with respect to different classifications of employees, or separately satisfy one method with respect to the accrued benefits for each such classification, provided that such classifications are not so structured as to evade the accrued benefit requirements of § 411(b) and § 1.411(b)-1.

Section 1.411(b)-1(b)(1)(i) provides that a defined benefit plan satisfies the requirements of the 3% method for a plan year if, as of the close of the plan year, the accrued benefit to which each participant is entitled, computed as if the participant separated from service as of the close of such plan year, is not less than 3% of the 3% method benefit, multiplied by the number of years (not in excess of 33 1/3) of his or her participation in the plan, including years after normal retirement age. The 3% method benefit is the normal retirement benefit to which the participant would be entitled if the participant commenced participation at the earliest possible entry age for any individual who is or could

be a participant under the plan and served continuously until the earlier of age 65 and the normal retirement age under the plan.

Section 1.411(b)-1(b)(2)(i) provides that a defined benefit plan satisfies the 133 1/3% rule for a particular plan year if (A) under the plan the accrued benefit payable at the normal retirement age (determined under the plan) is equal to the normal retirement benefit (determined under the plan), and (B) the annual rate at which any individual who is or could be a participant can accrue the retirement benefits payable at normal retirement age under the plan for any later plan year cannot be more than 133 1/3% of the annual rate at which the participant can accrue benefits for any plan year beginning on or after such particular plan year and before such later plan year.

Pursuant to § 411(b)(1)(B)(i), § 1.411(b)-1(b)(2)(ii)(A) provides that, for purposes of the 133 1/3% rule, any amendment to the plan which is in effect for the current plan year is treated as if it were in effect for all other plan years. Pursuant to § 411(b)(1)(B)(ii), § 1.411(b)-1(b)(2)(ii)(B) provides that any change in an accrual rate which change does not apply to any individual who is or could be a participant in the current plan year is disregarded. The regulations provide an example illustrating this rule under which, for the plan year 1980, a plan provides an accrued benefit of 2% of the highest 3 years' compensation for each year of service and provides that, for the plan year 1981, the accrued benefit is 3% of the highest 3 years' compensation. The regulations then state that the change in rate does not cause the plan to fail to satisfy the 133 1/3% rule because in the plan year 1980 the change in the accrual rate does not apply to any individual who is or could be a participant in the plan year 1980. However, the regulations further state that if, for example, a plan were to provide for an accrued benefit of 1% of the highest 3 years' compensation for each of the first 10 years of service and 1.5% of such compensation for each year of service thereafter, then the plan would fail to satisfy the 133 1/3% rule for the plan year even though no participant is actually accruing at the 1.5% rate because an individual who could be a participant and who has over 10 years of service would accrue at the 1.5% rate, which exceeds 133 1/3% of the 1.0% rate.

Section 1.411(b)-1(b)(2)(ii) provides that the fact that certain benefits under the plan may be payable to certain participants before normal retirement age is disregarded. Section 1.411(b)-1(b)(2)(ii) further provides that a plan does not satisfy the requirements of § 1.411(b)-1(b)(2) if the base for the computation of retirement benefits changes solely by reason of an increase in the number of years of participation.

Section 1.411(b)-1(b)(2)(iii) provides examples illustrating the 133 1/3% rule. One of these examples, Example (3), concludes that a plan fails to satisfy the 133 1/3% rule where the plan provides for an annual benefit commencing at age 65 equal to a percentage of a participant's highest 3 years of compensation equal to 2% for each of the first 5 years of participation, 1% for each of the next 5

years of participation, and 1.5% for each subsequent year of participation (even though the average rate of accrual in this case is not less rapid than ratable).

Section 1.411(b)-1(b)(3)(i) provides that a defined benefit plan satisfies the fractional rule if the accrued benefit to which any participant is entitled is not less than the fractional rule benefit multiplied by a fraction (not exceeding one) (A) the numerator of which is the participant's total number of years of participation in the plan, and (B) the denominator of which is the total number of years the participant would have participated in the plan if he or she separated from service at the normal retirement age under the plan.

Section 1.411(b)-1(b)(3)(ii) provides that the "fractional rule benefit" is the annual benefit commencing at normal retirement age under the plan to which a participant would be entitled if the participant continued to earn annually until normal retirement age the same rate of compensation upon which the participant's normal retirement benefit would be computed. The rate of compensation is computed on the basis of compensation taken into account under the plan (but taking into account average compensation for no more than the 10 years of service immediately preceding the determination). For purposes of the fractional rule benefit, the normal retirement benefit is determined as if the participant had attained normal retirement age on the date any such determination is made. Section 1.411(b)-1(b)(3)(ii) further provides that, for purposes of the fractional rule, for any plan year, Social Security benefits and all relevant factors used to compute benefits, e.g., consumer price index, are treated as remaining constant as of the beginning of the current plan year for all subsequent plan years.

Section 1.411(b)-1(b)(3)(iii) provides examples illustrating the fractional rule. One of these examples, Example (2), concludes that, in the case of a plan that provides a normal retirement benefit of 1% of average compensation multiplied by the number of years of plan participation completed by the participant, the plan fails to satisfy the fractional rule with respect to a participant whose annual compensation over an 11-year period varies from $17,000 up to $32,000. If the participant were to separate from service at the end of the period, the participant's annual benefit under the plan would be $2,530 commencing at age 65 (based on the 11 years of compensation), which is less than $2,561, which, taking into account only the last 10 years of compensation, is the minimum annual benefit under the fractional rule.

Notice 96-8, 1996-1 C.B. 359, states that benefits attributable to interest credits under a cash balance plan are in the nature of accrued benefits within the meaning of § 1.411(a)-7(a). Notice 96-8 further states that, in order for a plan's interest credits to satisfy the accrual rules of § 411(b)(1), the interest must be frontloaded. In order for interest to be frontloaded, the benefits attributable to future interest credits with respect to a hypothetical allocation accrue at the same time as the benefits attributable to the hypothetical allocation. Thus, in

determining the accrued benefit of a participant under a cash balance plan at any time prior to normal retirement age, the balance in the cash balance account must be projected with interest credits to normal retirement age. (See, however, § 411(a)(13), as added by the Pension Protection Act of 2006, Public Law 109-280 (PPA '06), for special rules which apply to certain hybrid pension plans for purposes of the vesting and distribution rules of §§ 411(a)(2), 411(c), and 417(e), but which do not apply for purposes of the benefit accrual rules of § 411(b)(1)(A)-(C).)

Notice 2007-6, 2007-3 I.R.B. 272, states that, on September 15, 1999, the Service's Director, Employee Plans, issued a field directive (the 1999 Field Directive) requiring that open determination letter applications and examination cases that involved the conversion of a defined benefit plan formula into a benefit formula commonly known as a cash balance formula be submitted for technical advice with respect to the conversion's effect on the qualified status of the plan. Notice 2007-6 further states that in Announcement 2003-1, 2003-1 C.B. 281, the Service announced that the cases that were the subject of the 1999 Field Directive would not be processed pending issuance of regulations addressing age discrimination. Further, Notice 2007-6 states that the Service will resume processing the determination letter and examination cases that were the subject of the 1999 Field Directive and Announcement 2003-1. Notice 2007-6 refers to these plans as "moratorium plans."

ANALYSIS

A plan satisfies the accrual rules of § 411(b)(1)(A), (B), and (C) if, for all participants, the accrued benefit of each participant satisfies one of the three alternative methods (the 3% method, the 133 1/3% rule, or the fractional rule). In applying each of the three alternative methods to a participant (including, in the case of the 133 1/3% rule, anyone who could be a participant), § 1.411(b)-1(a)(1) requires that the benefits under all formulas applicable to the participant must be aggregated. Therefore, even if one formula applicable to a participant by itself would produce a benefit that satisfies the 133 1/3% rule, and another formula by itself would produce a benefit that satisfies the fractional rule, the total benefit provided by the interaction of the two formulas must accrue in a manner that satisfies at least one of the three alternative methods.

If the benefits of all participants do not satisfy the same accrual rule, the plan is permitted to satisfy one of the accrual rules for some participants and another accrual rule for other participants, but only if the different classification of participants is not so structured as to evade the accrued benefit requirements of § 411(b)(1)(A), (B), and (C). Pursuant to § 1.411(b)-1(a)(1), this determination of whether the different classification of participants is not so structured as to evade the accrued benefit requirements is made with consideration of which classification of participants is satisfying which of the three accrual rules.

Another consideration in this determination is whether the assignment of a participant to a classification will change merely because of the passage of time.

When determining the accrued benefit for purposes of whether a plan satisfies the accrued benefit requirements of § 411(b)(1)(A), (B), and (C), the accrued benefit as determined for purposes of § 411 is tested regardless of how the accrued benefit may be defined in the plan. Thus, if the plan does not define the accrued benefit as an annual benefit commencing at normal retirement age, the annual benefit commencing at normal retirement age that is the actuarial equivalent of the accrued benefit under the plan is tested to determine whether the plan satisfies the accrued benefit requirements of § 411(b)(1)(A), (B), and (C).

Analysis of 133 1/3% Rule in General[1]

Under the 133 1/3% rule, the annual rate at which the retirement benefits payable at normal retirement age accrue under the plan (the annual rate of accrual) must be determined under the terms of the plan for anyone who is or could be a participant in the plan. The annual rate of accrual with respect to a participant is determined for the current plan year and all future plan years. Then the annual rate of accrual for any future plan year is compared to the annual rate of accrual for any year beginning on or after the current plan year, and before such future plan year, to see whether the ratio of the later annual rate of accrual to the earlier annual rate of accrual exceeds 133 1/3%.

Pursuant to § 1.411(b)-1(a)(1), the annual rate of accrual for a plan year is determined by aggregating all benefit formulas. Furthermore, the value of all relevant factors used to determine benefits for the current plan year is kept constant in determining the annual rates of accrual for future years. Thus, for example, for the plan year under consideration, which is 2002, the 3.87% interest crediting rate, the 5.48% applicable interest rate under § 417(e)(3), and the applicable mortality table under § 417(e)(3) are assumed to remain constant in determining the annual rate of accrual for each plan year after 2002.

If a plan has a single benefit formula, the annual rate of accrual for a plan year is generally determined as the increase in the accrued benefit under that benefit formula for the plan year. If a plan has more than one benefit formula applicable to a participant, the annual rate of accrual for the participant for the plan year must be determined using a single methodology, such as the increase in the dollar amount of the accrued benefit or the increase in the dollar amount of the accrued benefit expressed as a percentage of compensation for the plan year. Thus, the annual rate of accrual may be determined as the difference between (A) the dollar amount of the accrued benefit as a percentage of average

[1] Because the benefits provided by Plan A, both before and after the conversion, accrue over a period of years in excess of 33 1/3 years, Plan A fails to satisfy the 3% method. Accordingly, the analysis starts with the 133 1/3% rule.

compensation at the beginning of the plan year and (B) the dollar amount of the accrued benefit as a percentage of average compensation at the end of the plan year. In applying the 133 1/3% rule for a plan year, whichever methodology is used to determine the annual rate of accrual must be used consistently for all plan years (that is, the current plan year and all future plan years).

In applying the 133 1/3% rule, the analysis considers at least three groups of employees. The three groups are (1) those who became employed after December 31, 2001 (who will accrue benefits solely under the lump sum-based benefit formula), (2) those who were not grandfathered participants but who were employed on December 31, 2001 (who will accrue some benefits under the lump sum-based benefit formula, but whose benefits were "frozen" under the pre-conversion formula), and (3) the grandfathered participants (who will accrue benefits for a time under both the pre-conversion formula and the lump sum-based benefit formula).

Analysis of the 133 1/3% Rule for New Employees

For the group of new employees, the annual rate of accrual for a plan year is most easily determined as the increase in the dollar amount of the accrued benefit payable at the age 65 normal retirement age for a plan year expressed as a percentage of compensation for the plan year. Thus, for any year, the annual rate of accrual is determined by multiplying the compensation of a participant for the plan year by the percentage from the table of pay credit percentages set forth under the facts above, accumulating such result with hypothetical interest to age 65, converting the accumulation at age 65 to a single life annuity, and dividing the result by compensation for the year. Accordingly, the annual rate of accrual for a year will depend on the pay credit for the year, future interest credits, and the conversion factor. For purposes of applying the 133 1/3% rule to the plan, the interest crediting rate (the current year's value of the three-year Treasury Constant Maturity rate plus 25 basis points) and the conversion factor for future years (using the applicable interest rate and the applicable mortality table under § 417(e)(3) for 2002) are assumed to be the same as for the current plan year.

For 2002, the three-year Treasury Constant Maturity rate is 3.62% (which is the rate for December 2001), and the resulting hypothetical interest crediting rate is 3.87%. For 2002, the 30-year Treasury rate is 5.48% (the rate for December 2001) and the applicable mortality table is the table set forth in Rev. Rul. 2001-62. The following table shows the annual rates of accrual for each age assuming that these values for 2002 remain the same for future plan years:

Age at Beginning of Plan Year	Annual Rate of Accrual
21	1.41%
22	1.35%
23	1.30%

24	1.26%
25	1.21%
26	1.55%
27	1.49%
28	1.44%
29	1.38%
30	1.33%
31	1.28%
32	1.24%
33	1.19%
34	1.15%
35	1.10%
36	1.06%
37	1.02%
38	0.98%
39	0.95%
40	0.91%
41	1.10%
42	1.06%
43	1.02%
44	0.98%
45	0.94%
46	0.91%
47	0.87%
48	0.84%
49	0.81%
50	0.78%
51	0.90%
52	0.87%
53	0.84%
54	0.80%
55	0.77%
56	0.75%
57	0.72%
58	0.69%
59	0.66%
60	0.64%
61	0.72%
62	0.69%
63	0.67%
64	0.64%

As may be seen by inspection of the table, the annual rate of accrual for any later year is not more than 133 1/3% of the annual rate of accrual for any earlier year and, thus, the lump sum-based benefit formula standing alone satisfies the 133 1/3% rule. For example, in considering a participant who is age 21 in 2002, the

highest ratio of any future annual rate of accrual to any earlier rate is 128.1% (which is less than 133 1/3%). This occurs at age 26, where the ratio of 1.55% (which also happens to be the highest rate of accrual) to the 1.21% rate for age 25 (which is the smallest rate between ages 21 and 26) is 128.1%.

Analysis of the 133 1/3% Rule for Participants Who Are Not Grandfathered Participants

For participants who were employed on December 31, 2001, and who were not grandfathered participants, the accrued benefit under the pre-conversion formula does not increase after 2001, and the participants will only accrue benefits under the lump sum-based benefit formula. However, whether there is any increase in the accrued benefit of a participant will depend on the extent to which the new lump sum-based benefit formula provides a benefit that exceeds the benefit that had been accrued under the pre-conversion formula as of December 31, 2001. If, for a period of years, the lump sum-based benefit formula does not provide a greater benefit than the frozen accrued benefit under the pre-conversion formula as of December 31, 2001, then there is a period where the annual rate of accrual is zero. After that period, there will be a period of a positive annual rate of accrual as the lump sum-based benefit formula begins to provide a benefit that exceeds the frozen accrued benefit under the pre-conversion formula.

Ordinarily, a period of a zero annual rate of accrual followed by a period of positive annual rates of accrual would result in a plan failing to satisfy the 133 1/3% rule. However, because there is no ongoing accrual under the pre-conversion formula for these participants for service after the January 1, 2002 effective date of the conversion amendment, the lump sum-based benefit formula is the only formula under the plan (other than the § 411(d)(6) protected benefit), and, pursuant to the special rule of § 411(b)(1)(B)(i), that formula is treated as if it were in effect for all other plan years. Accordingly, the benefits under the lump sum-based benefit formula are the only benefits that need to be considered for purposes of applying the 133 1/3% rule (and the § 411(d)(6) protected benefit under the pre-conversion formula accrued through the date of conversion is disregarded in applying § 411(b)(1)(B)). As illustrated above, the lump sum-based benefit formula standing alone satisfies the 133 1/3% rule, and Plan A thus satisfies the rule for participants who are not grandfathered participants.

Analysis of the 133 1/3% Rule for Grandfathered Participants Age 61 and Above

For participants who are grandfathered participants, the pre-conversion formula continues for a period of four years after the effective date of the amendment and thus is not disregarded pursuant to the special rule of § 411(b)(1)(B)(i). For grandfathered participants who are age 61 or above on January 1, 2002, the pre-conversion formula continues at least through normal retirement age (age 65), and, based upon calculations using the 3.87% crediting rate and the applicable interest rate and applicable mortality table, such participants have an annual rate

of accrual of 1.1%, the rate of accrual under the pre-conversion formula (because the lump sum-based benefit formula never provides a higher benefit). Thus, the annual rate of accrual through normal retirement age will continue to be 1.1% of highest average compensation, and the plan satisfies the 133 1/3% rule with respect to those participants.

Analysis of the 133 1/3% Rule for Grandfathered Participants Below Age 61 Who Do Not Accrue Additional Benefits Under the Lump Sum-Based Benefit Formula Before Normal Retirement Age

For grandfathered participants who are at least age 50 and not yet age 61 on January 1, 2002, the pre-conversion formula provides a greater benefit for the next four years after the amendment (assuming, as required under § 411(b)(1)(B)(iv), that the relevant factors used to compute benefits as of 2002 are held constant in the future). Thereafter, the accrued benefit under the pre-conversion formula does not increase, and the participants will only accrue benefits under the lump sum-based benefit formula. However, whether there is any increase in the accrued benefit of a participant after 2005 and before normal retirement age will depend on the extent to which the new lump sum-based benefit formula provides a benefit that exceeds the benefit that had been accrued as of December 31, 2005. If there is a period of time after December 31, 2005 when the benefit under the pre-conversion formula (taking into account service at least through December 31, 2005) remains larger than the benefit under the lump sum-based formula, then there will be a period of zero annual rates of accrual. Assuming that the relevant factors in effect for the 2002 plan year remain the same for all future plan years, for grandfathered participants who are at least age 55 and not yet age 61 on January 1, 2002, the period of zero annual rates of accrual extends at least through the age 65 normal retirement age, because the benefit payable at age 65 under the plan will be the accrued benefit under the pre-conversion formula as of December 31, 2005. Because the annual rate of accrual for these participants changes from 1.1% to zero, and then does not increase prior to normal retirement age, Plan A satisfies the 133 1/3% rule with respect to these participants for 2002.

Analysis of the 133 1/3% Rule for Grandfathered Participants Below Age 61 Who Do Accrue Additional Benefits Under the Lump Sum-Based Benefit Formula Before Normal Retirement Age (Age 50 to 55)

For grandfathered participants who are at least age 50 and not yet age 55 on January 1, 2002, assuming as required under § 411(b)(1)(B)(iv) that the relevant factors used to compute benefits as of 2002 remain constant in the future, the period of zero accruals after 2005 will be followed by a period of annual rates of accrual prior to normal retirement age greater than zero. In such a case, the later annual rate of accrual which is greater than zero will exceed 133 1/3% of the zero annual rate of accrual, and thus Plan A does not satisfy the 133 1/3% rule with respect to these participants for 2002.

The effect on grandfathered participants who are at least age 50 and not yet age 55 on January 1, 2002, may be illustrated by a participant who commenced participation at age 35 with compensation of $40,000. Assume that the participant's compensation increased at the rate of 3% per year in the years before 2002. The participant on December 31, 2001, was age 50, had 15 years of service, and had highest average compensation of $58,758. Accordingly, the participant's accrued benefit at that date is $9,695 per year (1.1% of $58,758 multiplied by 15 years of service) payable at normal retirement age. At age 54, 4 years after the conversion, assuming the participant's compensation remains constant at the 2001 level, the participant would have an accrued benefit under the pre-conversion formula of $12,645 per year (1.1% of $60,504 multiplied by 19 years of service) payable at normal retirement age. The opening account balance at January 1, 2002, is $49,352. Taking into account expected hypothetical contributions to the account in accordance with the table of pay credit percentages above, and assuming that the hypothetical account is credited with interest at 3.87%, the cash balance account would provide a benefit of less than $12,645 for the first 9 plan years after conversion. Therefore, there would be a period of approximately 5 plan years (after the 4-year period of continued accruals under the pre-conversion formula) for which the participant has no increase in his or her accrued benefit (i.e., effectively an annual rate of accrual of zero). In approximately the 10th plan year after the conversion, the participant would have a small annual rate of accrual and the participant would have a relatively larger annual rate of accrual in the remaining 5 plan years until age 65.

Thus, there are some grandfathered participants who are at least age 50 and not yet age 55 with respect to whom Plan A fails to satisfy the 133 1/3% rule for 2002. Accordingly, Plan A cannot satisfy the accrual rules unless it can satisfy the accrual rules through the use of the fractional rule. While the fractional rule cannot effectively be used on a permanent basis for Plan A (for the reasons discussed below), the post-conversion transitional accruals under the pre-conversion formula result in a pattern of accrued benefits that may satisfy the fractional rule on a temporary basis for the grandfathered participants who are at least age 50 and not yet age 55 on January 1, 2002. Therefore, Plan A may be able to satisfy the accrual rules using the fractional rule for these participants, and the 133 1/3% rule for the other participants.

Analysis of Fractional Rule for Grandfathered Participants Age 50 to 55

In order to apply the fractional rule to the grandfathered participants in Plan A who do not satisfy the 133 1/3% rule, the fractional rule benefit must be determined for each such participant. This benefit is determined under the terms of the plan by assuming that participation continues to normal retirement age, and that all relevant factors used to determine benefits are kept constant as of the current year for all years after the current year. The fractional rule benefit for a participant is also determined by reflecting all of the participant's prior

compensation and years of participation, and assuming that the participant continues to earn the same rate of compensation in future years that is taken into account under the plan, but taking into account no more than 10 years of compensation. For this purpose, the number of years of compensation that would be taken into account under the plan, pursuant to § 411(b)(1)(C) and § 1.411(b)-1(b)(3)(ii)(A), is determined as if the participant had attained normal retirement age on the date the determination is made.

The fractional rule benefit, as so determined, is multiplied by a fraction, the numerator of which is the number of years of participation at each future point, and the denominator of which is the number of years of participation the participant will have if participation continues through normal retirement age. If, for the current plan year and each future plan year, the accrued benefit under the plan equals or exceeds the result obtained by multiplying the fractional rule benefit by the applicable fraction for that year, the plan satisfies the fractional rule with respect to that participant for the current plan year.

For grandfathered participants who are at least age 50 and not yet 55 on January 1, 2002, the fractional rule benefit is the greater of the benefit that is projected to be provided by the pre-conversion benefit formula and the benefit that will be provided by the hypothetical account of each participant, based upon the participation and compensation history of the participant. In determining the benefit that will be provided by the hypothetical account, future pay credits are determined by assuming that compensation for each future year is equal to the average of the compensation taken into account under the plan for the immediately preceding 10 years of participation (or for all years of participation for employees with less than 10 years of participation).

The fractional rule benefit for a participant may be determined at a date as illustrated by the following steps:

(1) Assuming that the participant had no additional service, participation, or compensation after the date of determination, determine which benefit formula would provide the benefit payable at normal retirement age under the plan (based on all other relevant factors on such date).

(2) For the formula determined in step (1), determine the number of years of service for which compensation is taken into account under that formula as of the determination date. For this purpose, where the lump sum-based benefit formula is the formula in step (1) and the plan provided for the establishment of an opening account balance equal to the present value of the accrued benefit determined under the pre-conversion formula, the number of years of service is the number of years of service taken into account in determining that balance, plus one year for each year since the initial account balance was determined.

(3) Determine the participant's average compensation as of the determination date for the immediately 10 preceding years or, if less, the number of years determined in step (2).

(4) Assume that the participant's compensation for each future year of participation until attainment of normal retirement age is the average compensation determined in step (3).

(5) Determine the participant's fractional rule benefit as the benefit that would be payable upon attainment of normal retirement age under the plan by applying the plan formulas based on future participation using the compensation determined under step (4) and based on the assumption that all other relevant factors remain constant through normal retirement age at the values for the date on which the determination is being made.

Under these facts, where the pattern of accruals results from a transition from a final average pay formula that satisfies the fractional rule to an accumulation formula that satisfies the 133 1/3% rule by providing the greater of the benefit under the final average pay formula or the benefit under the lump sum-based benefit formula during the transition period, the classification of participants between at least age 50 and not yet age 55 on January 1, 2002 (including the use of the fractional rule with respect to such participants) is not a classification that is structured to evade the accrued benefit requirements of § 411(b)(1)(A), (B), and (C) or § 1.411(b)-1. Accordingly, the grandfathered participants in Plan A whose annual rate of accrual fails the 133 1/3% rule may pass the accrual rules of § 411(b)(1)(A), (B), and (C) by using the fractional rule.

To illustrate this, consider the grandfathered participant described above who commenced participation at age 35. For the plan year under consideration, which is 2002, this participant had a projected benefit at the age 65 normal retirement age under the pre-conversion 1.1% formula (based on service through the end of the grandfathering period and using the compensation determined under Steps 1 through 4 above, which is $58,758) equal to $12,281. The projected benefit from the hypothetical account balance at the age 65 normal retirement age (assuming the pay credit percentages under the table above and future compensation of $58,758, and that the 3.87% interest crediting rate, the 5.48% applicable rate, and the applicable mortality table remain the same for future years) is $13,999. Therefore, the fractional rule benefit is $13,999. As may be seen from the following table, the accrued benefit under the plan (the greater of the $12,281 benefit under the prior 1.1% formula and the benefit provided by the hypothetical account balance) is not less than the pro rata portion of the fractional rule benefit at the end of each future year. Accordingly, the benefit with respect to this participant satisfies the fractional rule for 2002.

Age[2]	Fraction	Fraction times $13,999	Accrued Benefit at End of Year Per Plan
51	16/30	$7,466	$10,341
52	17/30	$7,933	$10,998
53	18/30	$8,399	$11,634
54	19/30	$8,866	$12,281
55	20/30	$9,333	$12,281
56	21/30	$9,799	$12,281
57	22/30	$10,266	$12,281
58	23/30	$10,733	$12,281
59	24/30	$11,199	$12,281
60	25/30	$11,666	$12,281
61	26/30	$12,132	$12,461
62	27/30	$12,599	$12,867
63	28/30	$13,066	$13,259
64	29/30	$13,532	$13,636
65	30/30	$13,999	$13,999

Because the accrued benefit of this participant at any future point will not be less than the result obtained by multiplying the fractional rule benefit by the ratio of the number of years of participation to that point to the total number of years of participation the participant will have at normal retirement age, Plan A satisfies the fractional rule for this participant for 2002.

If Plan A can make a similar demonstration for all grandfathered participants at least age 50 and not yet age 55 on January 1, 2002, then Plan A can satisfy the fractional rule for these participants and the 133 1/3% rule for all other participants. Under the facts presented, it is expected that such a demonstration will show that, for 2002, the fractional rule is satisfied for all participants whose accrual patterns were unable to satisfy the 133 1/3% rule.[3]

HOLDING

Plan A satisfies the 133 1/3% rule of § 411(b)(1)(B) for 2002 for all participants except the grandfathered participants who are at least age 50, but not yet age 55, on January 1, 2002. Under the above facts, the class of grandfathered participants who are at least age 50, but not yet age 55, on January 1, 2002, is not a classification that is structured to evade the accrued benefit requirements of

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[2] Age at the end of the plan year.

[3] It is similarly likely that a demonstration will show that, for 2002, the fractional rule is satisfied for all grandfathered participants age 55 or above on January 1, 2002. Also, the use of the fractional rule with respect to all such participants is not a classification that is so structured as to evade the accrued benefit requirements of § 411(b)(1)(A), (B), and (C) and § 1.411(b)-1.

§ 411(b)(1)(A), (B), and (C) and § 1.411(b)-1 so that the fractional rule may be used for these participants. With respect to the grandfathered participants who are at least age 50, but not yet age 55, on January 1, 2002, if the accrued benefits of these participants satisfy the fractional rule of § 411(b)(1)(C) as set forth in this revenue ruling, Plan A satisfies the accrual rules of § 411(b)(1)(A), (B), and (C) for 2002.

Satisfaction of Accrual Rules in Future Years

The analysis and holding in this revenue ruling only address the 2002 plan year. It is possible for a plan described in the facts of this revenue ruling to fail to satisfy the accrual rules of § 411(b)(1)(A), (B), and (C) for a subsequent year, either due to changes in relevant factors that are treated as constant for any given year or due to changes in facts relating to plan participants. For example, in the facts addressed in this revenue ruling, whether the pattern of increasing pay credits results in an annual rate of accrual which is more than 133 1/3% of the annual rate of accrual for any earlier year is affected by the rate of interest that is credited under the plan (which is treated as constant for all future years for purposes of applying the accrual rules of § 411(b)(1)(A), (B), and (C) to any year). In the year 2002, that interest rate is 3.87%. If the rate of interest credited under the plan for a later year were to be less than 1.58%, Plan A would not satisfy the 133 1/3% rule for that later year for participants who are not grandfathered participants and thus would need to be amended in order to satisfy the 133 1/3% rule.

As another example, if the grandfathered participant described above who did not satisfy the 133 1/3% rule were to continue to have compensation increases in years after 2002 at an annual 3% rate, then by 2013 the fractional rule benefit would be so large that the aggregate accrued benefit of the participant for that year would be less than the result obtained by multiplying that larger fractional rule benefit by the applicable fraction (the number of years of participation to that time to the total number of years of participation the participant will have at normal retirement age). Accordingly, even compensation increases that are regular and predictable can result in Plan A failing to satisfy the fractional rule for the grandfathered participants. Moreover, the possible volatility resulting from unpredictable future compensation increases is a major reason why the fractional rule cannot effectively be used on a permanent basis for plans such as Plan A.

If changes to relevant factors such as a decrease in the interest crediting rate or an increase in future compensation were to result in a failure to satisfy the accrual rules, the plan's benefit formula would need to change. Some of the types of changes that may be used are outlined below with respect to Plan A. Any change would need to satisfy applicable qualification requirements, including satisfaction of the anticutback rules of § 411(d)(6) and the requirement that a plan provide benefits that are definitely determinable.

In order to bring the plan into compliance in the event of a decrease in the interest crediting rate, Plan A's benefit formula could be changed to increase the hypothetical pay credits at the earlier ages, reduce the hypothetical pay credits at the higher ages, or a combination of an increase at the lower ages and a reduction at the higher ages. The resulting pattern of pay credits would have to be less steep than before in order for the 133 1/3% rule to be satisfied using the lower interest crediting rate. Plan A could also provide an interest crediting rate higher than 1.58% for that year and all future years for participants for whom the 133 1/3% rule is not satisfied, but any such minimum rate could not result in a rate of interest which exceeds a market rate of interest under § 411(b)(5)(B)(i)(I), as added to the Code by PPA '06.

It may be possible that Plan A could be changed to adjust the hypothetical pay credits to ensure compliance with the accrual rules of § 411(b)(1)(A), (B), and (C) for future years. Such a provision would need to provide that if the interest crediting rate at the beginning of any plan year is less than 1.58%, the hypothetical pay credits are adjusted so that the resulting pattern of pay credits satisfies the 133 1/3% rule using the interest crediting rate for the year. Any such possible provision would need to include specific rules on how the adjustment is made, which would typically be dependent on the extent to which the interest crediting rate is less than 1.58%. Furthermore, the provision would need to be clear as to what happens in future years should the interest crediting rate again change. Note that it may be difficult to design such provisions and, furthermore, difficult to put them into effect in actual plan operations on a timely basis.

With respect to the possibility that compensation increases for any future year may result in a plan failing to satisfy the fractional rule for that year, provisions would be necessary either to ensure that the plan could instead satisfy the 133 1/3% rule for that year (as described in the preceding two paragraphs) or to provide a combination of increases in the accrued benefit for earlier years or decreases in the accruals for future years (but § 411(d)(6) would not permit decreases for service before the applicable amendment date) in order to satisfy the fractional rule for that year. However, unlike the discussion above concerning interest crediting rates, it is not clear how a provision to alter accrual rates or accrued benefits could be implemented annually by a plan provision in the absence of relevant participant information such as the compensation history through the plan year. It may be possible to limit the compensation taken into account for any participant by providing that only compensation increases up to some specified percentage are taken into account. However, any such provision would be difficult to design and extremely difficult to put into effect in actual plan operations on a timely basis.

Section 7805(b) Relief

Under the authority of § 7805(b), this paragraph provides relief for plans under which a group of employees specified under the plan receives a benefit equal to

the greatest of the benefits provided under two or more formulas (an applicable "greater-of" benefit), provided that each such formula standing alone would satisfy an accrual rule of § 411(b)(1)(A), (B), or (C) for the years involved. This relief applies to a plan only if either: (1) as of February 19, 2008, the plan provisions under which the applicable "greater-of" benefit is provided have been the subject of a favorable determination letter; (2) as of February 19, 2008, a remedial amendment period under § 401(b) for the plan provisions under which the applicable "greater-of" benefit is provided has not expired; or (3) the plan is otherwise a "moratorium plan" as defined in Notice 2007-6. Under the relief set forth in this paragraph, for plan years beginning before January 1, 2009, the Service will not treat a plan described in the preceding sentence as failing to satisfy the accrual rules of § 411(b)(1)(A), (B), and (C) solely because the plan provides an applicable "greater-of" benefit, where the separate formulas, standing alone, would satisfy an accrual rule of § 411(b)(1)(A), (B), and (C). For this purpose, a plan described in (2) that provides a group of employees specified under the plan an applicable "greater-of" benefit can be retroactively amended[4] so that each formula, standing alone, would satisfy an accrual rule of § 411(b)(1)(A), (B), and (C) for the years involved. For example, a moratorium plan that has a determination letter request pending under which the lump-sum based benefit formula standing alone fails to satisfy the accrual rules of § 411(b)(1)(A), (B), and (C) for a plan year beginning before January 1, 2009 (because the interest credits under the plan are insufficient to compensate for the effect of age-based or service-based pay credits) can be retroactively amended so that the lump-sum based benefit formula satisfies an accrual rule of § 411(b)(1)(A), (B), and (C) for the years involved.

The relief under the prior paragraph does not extend to other issues under § 411. Accordingly, before a favorable determination letter can be issued, the plan must otherwise satisfy the requirements of § 411.[5] Thus, for example, in order to avoid a forfeiture of the accrued benefit under the plan for purposes of § 411, or to ensure compliance with the accrual rules of § 411(b)(1)(A), (B), and (C), the annual benefit payable at normal retirement age attributable to the lump sum-based benefit formula at the end of the current year must not change thereafter, assuming that no change were to occur in any relevant factor used to determine benefits and disregarding any future pay credits (e.g., under the plan, the annual benefit payable at normal retirement age attributable to the lump sum-based benefit formula as of the end of a year cannot increase or decrease after that year due merely to operation of the plan and the passage of time, as opposed to additional pay credits or changes in a relevant factor used to determine benefits).

DRAFTING INFORMATION

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[4] Any such amendment must satisfy the anticutback rules of § 411(d)(6).

[5] As provided by Notice 2007-6, issues as to whether the conversion satisfies the requirements of § 411(b)(1)(H) will generally not be considered for plans where the conversion is before June 30, 2005.

The principal author of this revenue ruling is James E. Holland, Jr. of the Employee Plans, Tax Exempt and Government Entities Division. Mr. Holland may be reached by e-mail at RetirementPlanQuestions@irs.gov.

February 1, 2008
HP-797

Under Secretary Steel to Discuss Housing at American Securitization Forum Conference

Under Secretary for Domestic Finance Robert K. Steel will deliver the keynote address Tuesday at the American Securitization Forum's Annual Conference in Las Vegas, Nev. The Under Secretary will discuss housing and the progress of the organization's streamlined process to reach more borrowers, which Secretary Henry M. Paulson, Jr. welcomed in December 2007.

The following event is open to the media:

Who
Under Secretary for Domestic Finance Robert K. Steel

What
Keynote Address

When
Tuesday, February 5, 9:00 a.m. PST

Where
American Securitization Forum 2008 Annual Conference
The Venetian Resort Hotel
3355 Las Vegas Blvd.
Las Vegas, Nev.

Note
Media must register in advance. Contact Katrina Cavalli at (212) 313-1181.

February 1, 2008
HP-799

Treasury to Hold Technical Briefing on Blue Book

Assistant Secretary for Tax Policy Eric Solomon and Assistant Secretary for Economic Policy Phillip Swagel will hold a technical briefing of the General Explanations of the Administration's Fiscal Year 2009 Revenue Proposals, also known as the "Blue Book."

Who
Assistant Secretary for Tax Policy Eric Solomon
Assistant Secretary for Economic Policy Phillip Swagel

What
Pen and Pad Technical Briefing on Budget Blue Book

When
Monday, February 4, 1:15 p.m. EST

Where
Media Room (4121)
Treasury Department
1500 Pennsylvania Avenue, NW
Washington, D.C.

Note
Cameras will not be allowed into the briefing.

Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or [illegible] with the following information: full name, Social Security number and date of birth.

February 1, 2008
HP-800

Treasury Economic Update 2.1.08

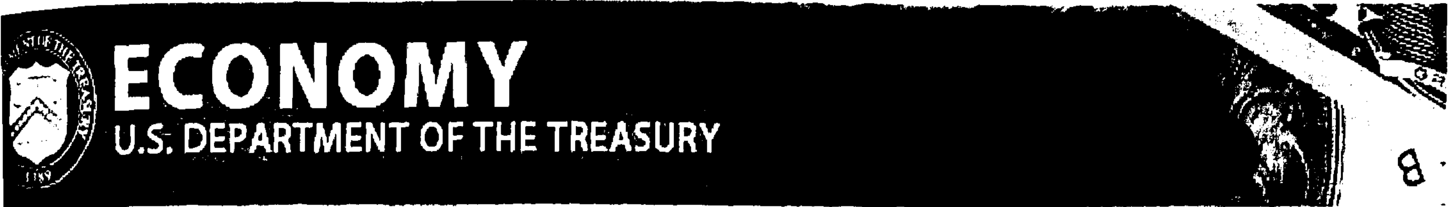
"Recent data indicate that economic growth and the pace of job creation have slowed. At the same time, the unemployment rate remains low and core inflation is contained. We expect that the economy will continue to expand, even as the housing downturn and credit market strains remain a drag on growth. Rapid enactment of the bipartisan growth package passed by the House of Representatives would provide important support for the economy this year."
Assistant Secretary Phillip Swagel, February 1, 2008

Job Creation Has Slowed:
Job Growth: Payroll employment fell by 17,000 in January, following a gain of 82,000 jobs in December, The United States has added 1 million jobs in the past 12 months and 8.3 million jobs since August 2003. Employment increased in 47 states and the District of Columbia over the year ending in December. *(Last updated: February 1, 2008)*
Low Unemployment: The unemployment rate edged down to 4.9 percent in January from 5.0 percent in December. Unemployment rates have declined in 12 states and the District of Columbia over the year ending in December. *(Last updated: February 1, 2008)*

There Are Still Many Signs of Economic Strength:
Business Investment: Business spending on commercial structures and equipment rose solidly in the fourth quarter. Healthy corporate balance sheets should support continued investment growth. (Last updated: January 30, 2008)
Exports: Strong global growth is boosting U.S. exports, which grew by 7.7 percent over the past 4 quarters. *(Last updated: January 30, 2008)*
Inflation: Core inflation remains contained. The consumer price index excluding food and energy rose 2.4 percent over the 12 months ending in December. *(Last updated: January 16, 2008)*
Tax Revenues: Tax receipts rose 6.7 percent in fiscal year 2007 (FY07) on top of FY06's 11.8 percent increase. As a share of GDP, FY07 receipts exceeded their 40-year average. *(Last updated: October 12, 2007)*

Americans Are Keeping More of Their Hard-Earned Money:
Real after-tax income per person increased 1.1 percent over the past 12 months (ending in December). *(Last updated: January 31, 2008)*

Pro-Growth Policies Will Enhance Long-Term U.S. Economic Strength:
We are on track to make significant further progress on the deficit. The FY07 budget deficit was down to 1.2 percent of GDP, from 1.9 percent in FY06. Much of the improvement in the deficit reflects strong revenue growth, which in turn reflects strong economic growth. Looking ahead, higher spending on entitlement programs dominates the future fiscal situation; we must squarely face up to the challenge of reforming these programs.
www.treas.gov/economic-plan



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Printer Friendly Version of the U.S. Economic Strength

The U.S. economy is fundamentally strong, but the housing correction, credit turmoil, and high oil prices are weighing on growth this year and short-term risks are to the downside. The Economic Stimulus Act of 2008, signed into law on February 13, will help protect the strength of our economy as we weather the housing downturn and other challenges. This agreement includes short-term incentives to bolster business investment and consumer spending to keep our economy growing and creating jobs this year.

LATEST NEWS

Asst Sec Swagel Remarks on the US Economy

Economic Growth Package

- Fact Sheet: State-by-State Benefit of the Economic Stimulus Act of 2008
- Fact Sheet: Examples of How the Economic Growth Package will Benefit Americans
- Paulson Statement on Senate Passage of Economic Growth Package
- Paulson Statement on House Passage of Economic Growth Legislation
- Paulson Answers Questions on Economic Growth Agreement
- Paulson Press Briefing on the Bipartisan Economic Growth Agreement
- White House Fact Sheet: New Growth Package Meets Criteria to Keep Our Economy Healthy
- Bush Statement on Economic Growth Agreement
- Paulson Remarks on the Economy
- Paulson Takes Questions at the White House
- Paulson Remarks at White House Press Briefing
- White House Fact Sheet: Taking Action to Keep Our Economy Healthy
- Transcript: President's Remarks

Treasury Releases Social Security Papers

To build on the discussions that Secretary Paulson has had with members of Congress in both parties, Treasury will release a series of issue briefs that will discuss Social Security reform, focusing on the nature of the problem and those aspects of reform that have broad support.

search

"Recent data indicate that econo growth and the pace of job creat have slowed. At the same time, t unemployment rate remains low core inflation is contained. We e that the economy will continue to expand, even as the housing do and credit market strains remain on growth. Rapid enactment of t bipartisan growth package passe the House of Representatives w provide important support for the economy this year."
- Assistant Secretary Phillip Swa
February 1, 2008

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- The White House Economy a Budget
- Bureau of Economic Analysis
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- The Federal Reserve
- Economic Data Tables

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Treasury's Office of Economi Policy

- Paulson Statement on Treasury Social Security Papers on Common Ground
- **Issue Brief 1**: Social Security Reform: The Nature of the Problem
- **Issue Brief 2** : Social Security Reform: A Framework for Analysis
- **Issue Brief 3** : Social Security Reform: Benchmarks for Assessing Fairness and Benefit Adequacy

U.S. Economic Strength

Job Creation Has Slowed:
Job Growth: Payroll employment fell by 17,000 in January, following a gain of 82,000 jobs in December, The United States has added 1 million jobs in the past 12 months and 8.3 million jobs since August 2003. Employment increased in 47 states and the District of Columbia over the year ending in December. *(Last updated: February 1, 2008)*

Low Unemployment: The unemployment rate edged down to 4.9 percent in January from 5.0 percent in December. Unemployment rates declined in 12 states and the District of Columbia over the year ending in December. *(Last updated: February 1, 2008)*

There Are Still Many Signs of Economic Strength:
Business Investment: Business spending on commercial structures and equipment rose solidly in the fourth quarter. Healthy corporate balance sheets should support continued investment growth. *(Last updated: February 27, 2008)*
Exports: Strong global growth is boosting U.S. exports, which grew by 7.9 percent over the past 4 quarters. *(Last updated: February 27, 2008)*
Inflation: Core inflation remains contained. The consumer price index excluding food and energy rose 2.5 percent over the 12 months ending in January. *(Last updated: February 20, 2008)*

The Economic Stimulus Package Will Provide a Temporary Boost to Our Economy:
The package will help our economy weather the housing correction and other challenges. The Economic Stimulus Act of 2008, signed into law by President Bush has two main elements—temporary individual tax relief so that working Americans have more money to spend and temporary tax incentives for businesses to invest and grow. Together, the legislation will provide about $150 billion of tax relief for the economy in 2008, leading to the creation of over half a million additional jobs by the end of this year.*(Last updated: February 29, 2008)*

Pro-Growth Policies Will Enhance Long-Term U.S. Economic Strength:
We are on track to make significant further progress on the deficit. The FY07 budget deficit was down to 1.2 percent of GDP, from 1.9 percent in FY06. Much of the improvement in the deficit reflects strong revenue growth, which in turn reflects strong economic growth. Looking ahead, higher spending on entitlement programs dominates the future fiscal situation; we must squarely face up to the challenge of reforming these programs.

Last Updated: February 29, 2008

February 4, 2008
HP-801

Proposed Treasury Budget for FY 2009

The President's proposed budget for the Treasury Department's fiscal year 2009 reflects the Department's continued dedication to promoting economic growth and opportunity, strengthening national security, and exercising fiscal discipline.

"The President's proposed budget for Treasury supports the Department's pro-growth priorities and commitment to promoting economic growth and stability, and ensuring the safety, soundness, and security of the U.S. and international financial systems," said Treasury Secretary Henry M. Paulson, Jr.

The Treasury appropriations request for FY 2009 is $12.5 billion, an increase of 3.8 percent over the FY 2008 enacted budget of $12.0 billion.

Promoting Economic Growth and Opportunity

The Treasury Department's offices of International Affairs, Tax Policy, Economic Policy, and Domestic Finance provide technical analysis, economic forecasting, and policy guidance on issues ranging from federal financing to responding to international financial crises.

The FY 2009 budget provides an additional $3.0 million to Domestic Finance's Office of Debt Management to update their information technology systems to ensure accurate and timely projections can be made.

Additional funds of $.07 million are requested to recruit investment flow analysts and other specialists. This funding is necessary to provide additional support for, and measure progress toward, achieving the International Affairs objective of ensuring national security and increasing economic growth.

Strengthening National Security

The Office of Terrorism and Financial Intelligence marshals the Treasury Department's intelligence and enforcement functions, aimed at safeguarding the financial system against illicit use and combating national security threats from rogue regimes, terrorism, proliferation of weapons of mass destruction, and narcotics trafficking. To support these efforts, Treasury requests an $11.0 million increase for TFI, including $5.5 million for the Financial Crimes Enforcement Network to ensure effective management of the Bank Secrecy Act.

Exercising Fiscal Discipline

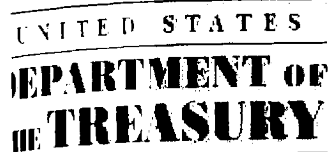
One of Secretary Paulson's top priorities is keeping the U.S. on the path to achieve the President's goal of reducing budget deficits and balancing the budget by 2012. The Treasury Department is committed to reducing the deficit by managing the nation's finances effectively and ensuring the most efficient use of taxpayer dollars and collecting the revenue due to the federal government.

Enforcing the Nation's Tax Laws Fairly and Efficiently

The budget requests $11.4 billion for the Internal Revenue Service, an increase of 4.3 percent over the FY 2008 enacted budget for the IRS to expand its enforcement activities and to continue improvements in taxpayer service.

An in-depth press briefing on the revenue proposals, including release of the "Blue Book" will be held at 1:15 PM (EST) today in room 4121 of the Treasury Building. (Media without Treasury press credentials should contact Frances Anderson at (202) 622-2960, or frances.anderson@do.treas.gov with: full name, Social Security number, and date of birth.)

Summary of Treasury's FY 2009 Budget Request:
http://treas.gov/offices/management/budget/budgetinbrief/fy2009/index.shtml



OFFICE OF MANAGEMENT

Office of Performance Budgeting and Strategic Planning

BUDGET DOCUMENTS: FY 2009

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FY 2009 Budget-in-Brief

FY 2009 Budget-in-Brief (1.94 MB)
Last Updated: January 31, 2008

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Last Updated: February 4, 2008

February 4, 2008
HP-802

Under Secretary Steel to Discuss Regulatory Blueprint

Under Secretary for Domestic Finance Robert K. Steel will speak Thursday at the New York Society of Security Analysts Annual Wall Street Forum in New York City. His remarks will focus on Treasury's progress creating a blueprint to improve the U.S. financial regulatory structure.

The following event is open to the media:

Who
Under Secretary for Domestic Finance Robert K. Steel

What
Remarks

When
Thursday, February 7, 8:00 a.m. EST

Where
New York Society of Security Analysts 3rd Annual Wall Street Forum
Reuters America
3 Times Square
7th Avenue and 42nd Street
New York, N.Y.

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February 4, 2008
HP-803

Treasury Releases FY 2009 Bluebook

Washington, DC--The U.S. Treasury Department today released its General Explanations of the Administration's Fiscal Year (FY) 2009 Revenue Proposals, often referred to as the Bluebook.

The Administration's FY 2009 Budget includes measures to permanently extend the President's tax relief enacted in 2001 and 2003, promote savings and investment and improve compliance with the U.S. tax system. The FY 2009 Budget also includes initiatives to:

- Provide a new standard deduction for health insurance
- Encourage entrepreneurship and investment
- Provide alternative minimum tax (AMT) relief
- Strengthen home ownership
- Provide incentives for charitable giving
- Extend various expiring tax provisions

Extend Permanently the President's 2001 and 2003 tax relief

The President's tax relief enacted in 2001 and 2003 helped make the tax code fairer, simpler, and more pro-growth. The FY 2009 Budget proposals include making the 2001 and 2003 tax relief permanent, which is essential for promoting economic growth and higher living standards in the future. The FY 2009 Budget also includes proposals to promote savings for all Americans and encourage investment by entrepreneurs.

AMT Relief

The Administration is concerned that the individual AMT may impose substantial burdens upon taxpayers who were not the originally intended targets of the individual AMT. The President's FY 2009 Budget proposes to extend for one year through 2008 provisions that address the rapid rise in the number of taxpayers affected by the AMT. The Administration believes the longer term solution to the problems associated with the individual AMT is best addressed within the context of other reforms to the tax system.

The proposal would increase the AMT exemption levels for 2008 to $46,250 for single and head of household filers, $70,050 for married taxpayers filing joint returns, and $35,025 for married taxpayers filing separate returns. In addition, the proposal would allow an individual to reduce 2008 tax liability by the full amount of nonrefundable personal credits.

Improving Tax Compliance

In September 2006, the Treasury Department released a comprehensive strategy to improve tax compliance. The strategy builds upon the demonstrated experience and current efforts of the Treasury Department and the Internal Revenue Service (IRS) to improve compliance with a commitment to taxpayer service. In August 2007, the IRS issued a report: *Reducing the Federal Tax Gap: A Report on*

Improving Voluntary Compliance, setting forth the steps the IRS is taking to implement the 2006 Treasury strategy.

The Treasury Department has put forward 16 proposals in the FY 2009 Budget to help improve compliance, with an emphasis on improving information reporting without creating excessive burdens on compliant taxpayers. The Treasury Department also asked for $489 million for the IRS to increase compliance efforts.

Click here for more information on the IRS' August 2007 report on improving voluntary compliance.

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

Click here to view the FY 2009 Blue Book.

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- FY 2009 Bluebook

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August 2, 2007
HP-524

Treasury, IRS Release Report on Improving Voluntary Compliance

Washington, D.C.--The Treasury Department and the Internal Revenue Service (IRS) released today an IRS report addressing the agency's implementation of the 2006 strategy to improve voluntary compliance with federal tax laws. A copy of the report is attached.

The IRS report, "Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance," details steps currently being taken by the IRS, as well as those under development, to address key elements of the "tax gap." The report builds on the seven components of the "Comprehensive Strategy for Reducing the Tax Gap," which the Treasury Department released in September 2006. Those components are:

1. Reducing Opportunities for Evasion
2. Making a Multi-Year Commitment to Research
3. Continuing Improvements in Information Technology
4. Improving Compliance Activities
5. Enhancing Taxpayer Service
6. Reforming and Simplifying the Tax Law
7. Coordinating with Partners and Stakeholders

In each of these areas, the report sets out compliance objectives and initiatives, along with targeted completion dates, that the IRS is implementing to improve tax compliance over the next several years.

Detailed information is provided on each step currently being taken to reduce opportunities for tax evasion, leverage technology, and support legislative proposals that, as implemented, will improve compliance. At the same time, the report reaffirms that taxpayer rights must be respected and burdens on compliant taxpayers must be minimized. The report also presents an outreach approach to ensure all taxpayers understand their tax obligations. Additionally, it recognizes the importance of having a multi-year research program that will assist in understanding both the scope of and reasons for noncompliance.

Full implementation of the initiatives outlined in the report will have a positive effect on the rate of voluntary compliance. The report reflects the commitment of the IRS to apply its resources where they are of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights, and minimizing the burden on taxpayers who comply.

The overall compliance rate achieved under the U.S. revenue system is quite high. For the 2001 tax year, the IRS estimates that over 86 percent of tax liabilities were collected, after factoring in late payments and recoveries from IRS enforcement activities. Nevertheless, an unacceptable amount of the tax that should be paid every year is not, short-changing the vast majority of Americans who pay their taxes accurately and giving rise to the tax gap. The gross tax gap was estimated to be $345 billion in 2001. After enforcement effects and late payments, this number was reduced to a net tax gap of approximately $290 billion.

A copy of the Treasury Department's 2006 strategy is available at:

http://www.treas.gov/press/releases/reports/otptaxgapstrategy%20final.pdf.

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REPORTS

- IRS Report on Improving Voluntary Compliance

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September 26, 2006
HP-111

A Comprehensive Strategy for Reducing the Tax Gap
U.S. Department of the Treasury
Office of Tax Policy
September 26, 2006

Executive Summary

In fiscal year 2005, Federal receipts totaled over $2.2 trillion. More than 95 percent of net receipts were collected by the Internal Revenue Service (IRS) through its administration of the income, transfer and excise tax provisions of the Internal Revenue Code. The vast majority of these receipts is collected through our voluntary compliance system, under which taxpayers report and pay their taxes with no direct enforcement and minimal interaction with the government. The overall compliance rate achieved under this system is quite high. In 2001, the compliance rate was over 86 percent, after including late payments and recoveries from IRS enforcement activities. Nevertheless, an unacceptably large amount of the tax that should be paid every year is not, requiring compliant taxpayers to make up for the shortfall and giving rise to the "tax gap."

The Administration is committed to working with Congress to reduce the tax gap. This document outlines the Administration's aggressive strategy for addressing the tax gap. The strategy builds upon the current efforts of the Treasury Department and the IRS to improve compliance. As part of the deliberations in preparing the Administration's fiscal year 2008 budget request to Congress, the Treasury Department and the IRS are working
with the Office of Management and Budget to further develop this strategy to reduce the tax gap. This document is intended to provide a broad base on which to build. The more detailed elements of the tax gap strategy are, in part, contingent upon the budget process for fiscal year 2008 and beyond. Accordingly, the Treasury Department and the IRS will provide a more detailed outline of steps they will take to address the tax gap following
release of the Administration's fiscal year 2008 budget request early next year.

Four key principles guided the development of this strategy:

- First, unintentional taxpayer errors and intentional taxpayer evasion should both be addressed.
- Second, sources of noncompliance should be targeted with specificity.
- Third, enforcement activities should be combined with a commitment to taxpayer service.
- Fourth, policy positions and compliance proposals should be sensitive to taxpayer rights and maintain an appropriate balance between enforcement activity and imposition of taxpayer burden.

REPORTS

- Treasury Comprehensive Strategy for Addressing the Tax Gap

General Explanations of the Administration's Fiscal Year 2009 Revenue Proposals

Department of the Treasury
February 2008

This document is available in Adobe Acrobat format on the Internet at:
http://www.treas.gov/offices/tax-policy/library/bluebk08.pdf
The free Adobe Acrobat Reader is available at: http://www.adobe.com/products/acrobat/readstep2.html

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GENERAL EXPLANATIONS OF THE ADMINISTRATION'S FISCAL YEAR 2009 REVENUE PROPOSALS

Stimulate Economic Growth and Job Creation in 2008

Our most pressing immediate economic priority is for the Administration and the Congress to work together to enact a temporary economic stimulus package to keep our economy growing and create jobs. The package should take effect as quickly as possible, provide broad-based tax relief for individuals, and include tax incentives for business investment. The Administration will work with the Congress in a bipartisan manner to enact initiatives that provide timely, temporary, and effective support to the Nation's economy.

Improve the Tax System and Make the United States More Competitive

As a longer-term consideration, Americans deserve a tax system that is simple, fair, and pro-growth – in tune with our dynamic, 21st century economy. The tax system should promote the competitiveness of American workers and businesses in the global economy. The report, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century*, released by the Treasury Department in December 2007 outlines several broad approaches to business tax reform and lays the groundwork for discussion of ways to ensure that the Nation's business tax system better meets the needs of businesses in today's global economy and improves living standards for all Americans.

The President's tax relief enacted in 2001 and 2003 helped make the tax code fairer, simpler, and more pro-growth. The FY 2009 Budget proposals include making the 2001 and 2003 tax relief permanent, which is essential for promoting economic growth and higher living standards in the future. The Administration has made additional proposals that would improve the tax code further. These proposals affect a wide range of areas, including simplifying and encouraging saving, encouraging entrepreneurship and investment, making health care more affordable and consumer-driven, providing incentives for charitable giving, strengthening education, and protecting the environment. Also included are proposals to simplify the tax law for families, improve tax compliance, improve tax administration, improve the administration of unemployment insurance, modify energy tax provisions, and extend expiring tax provisions.

MAKE PERMANENT CERTAIN TAX RELIEF ENACTED IN 2001 AND 2003

Permanently Extend Certain Provisions of the 2001 Tax Relief and the 2003 Jobs and Growth Tax Relief

Current Law

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) created a new 10-percent individual income tax rate bracket, reduced marginal income tax rates for individuals, doubled the child credit and extended its refundability, reduced marriage penalties, eliminated the phase-out of personal exemptions and the limitation on certain itemized deductions for higher-income taxpayers, provided additional incentives for education, increased Individual Retirement Account and pension incentives, eliminated the estate and generation-skipping transfer taxes, and modified the gift tax. These and several other provisions of EGTRRA sunset on December 31, 2010.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) increased the amount of qualifying property that can be expensed in the year of purchase rather than being depreciated and lowered the tax rates on qualifying dividends and on capital gains. The provisions were extended by the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). The liberalized expensing provision was further extended by the Small Business and Work Opportunity Tax Act of 2007 (SBWOTA), which also increased the amount that may be expensed in a single taxable year. These provisions sunset on December 31, 2010.

Reasons for Change

The tax relief and incentives to work, save, and invest provided by EGTRRA and JGTRRA, and expanded by SBWOTA, are essential to the long-run performance of the economy. All taxpayers should have the certainty of knowing that these provisions will extend beyond 2010. Taxpayers plan for periods far beyond the scheduled sunset dates of the EGTRRA and JGTRRA provisions when saving for their children's education, undertaking new business ventures, planning for retirement, and planning future contributions to charity and bequests for their children. Permanent extension of the provisions is essential for promoting growth and higher levels of income in the future.

Proposal

The provisions of EGTRRA that sunset on December 31, 2010 would be permanently extended. The provisions of JGTRRA that sunset on December 31, 2010 (as expanded and extended) would be permanently extended.

Revenue Estimate[1]

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-422	-2,077	-13,095	-158,453	-236,584	-255,388	-665,597	-2,185,294

[1] The estimate includes both receipts and outlay effects. The outlay effect is $108,524 million for 2009-2018.

TAX INCENTIVES

Simplify and Encourage Saving

EXPAND TAX-FREE SAVINGS OPPORTUNITIES

Current Law

Current law provides multiple tax-preferred individual savings accounts to encourage saving for retirement, education, and health expenses. The accounts have overlapping goals but are subject to different sets of rules regulating eligibility, contribution limits, tax treatment, and withdrawal restrictions. Individual Retirement Accounts (IRAs), including traditional, nondeductible, and Roth IRAs, are primarily intended to encourage retirement saving, but can also be used for certain education, medical, and other non-retirement expenses. Each of the three types of IRAs is subject to a different set of rules regulating eligibility and tax treatment. Coverdell Education Savings Accounts (ESAs) and Section 529 Qualified Tuition Programs (QTPs) are both intended to encourage saving for education, but each is subject to different rules. Archer Medical Savings Accounts (MSAs) and Health Savings Accounts (HSAs) are intended to encourage saving for medical expenses, but each is subject to different rules.

Individual Retirement Accounts: Under current law, individuals under age 70½ may make contributions to a traditional IRA, subject to certain limits. The contributions are generally deductible; however, the deduction is phased out for workers with incomes above certain levels who are covered by an employer-sponsored retirement plan. For taxpayers covered by employer plans in 2008, the deduction is phased out for single and head-of-household filers with modified adjusted gross income[2] (AGI) between $53,000 and $63,000, for married filing jointly filers with modified AGI between $85,000 and $105,000, and for married filing separately filers with modified AGI between $0 and $10,000. For a married filing jointly taxpayer who is not covered, but whose spouse is covered by an employer-sponsored retirement plan, the deduction is phased out with modified AGI between $159,000 and $169,000. Account earnings are not includible in gross income until distributed. Distributions (including both contributions and account earnings) are includible in gross income for income tax purposes.

To the extent a taxpayer cannot or does not make deductible contributions to a traditional IRA or a Roth IRA, a taxpayer under age 70½ may make nondeductible contributions to a traditional IRA. In this case, distributions representing a return of basis are not includible in gross income, while distributions representing account earnings are includible in gross income. There is no income limit for nondeductible contributions to a traditional IRA.

Individuals of any age may make contributions to a Roth IRA. The contributions are not deductible. Allowable contributions are phased out for workers with incomes above certain levels. In 2008, contributions are phased out for single or head-of-household filers with modified AGI between $101,000 and $116,000, for married filing jointly filers with modified

[2] AGI plus income from education savings bonds, interest paid on education loans, employer-provided adoption assistance benefits, IRA deductions, deductions for qualified higher education expenses, and certain other adjustments.

AGI between $159,000 and $169,000, and for married filing-separate filers with modified AGI between $0 and $10,000. Account earnings accumulate tax free, and qualified distributions (including account earnings) are not included in gross income for income tax purposes. Nonqualified distributions from Roth IRAs are included in income (to the extent they exceed basis) and subject to an additional tax. Distributions are deemed to come from basis first.

The annual aggregate limit on contributions to all of a taxpayer's IRAs (traditional, nondeductible, and Roth) is the lesser of earnings or $5,000 in 2008, and will be indexed for inflation after 2008. Individuals age 50 and over may make an additional "catch-up" contribution of up to $1,000.

Taxpayers with AGI of $100,000 or less and who are not married filing separately can convert a traditional IRA to a Roth IRA. In general, the conversion amount is included in gross income (but not for purposes of the $100,000 limit). The Tax Increase Prevention and Reconciliation Act of 2005 repealed the income limitation for conversions from a traditional IRA to a Roth IRA made after December 31, 2009. Taxpayers who make such conversions in 2010 may include half of the conversion amount in income in each year 2011 and 2012, and none of the amount in income in 2010. Conversions made on or after January 1, 2011 will be included in gross income in the year of the conversion.

Early distributions from IRAs are generally subject to an additional 10 percent tax. The tax is imposed on the portion of an early distribution that is includible in gross income. It applies in addition to ordinary income taxes on the distribution. The additional tax does not apply to a rollover to an employer plan or IRA, or if the distribution is made in the cases of death or disability, certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, or as part of a series of substantially equal periodic payments.

Minimum distribution rules require that, beginning at age 70½, the entire amount of a traditional IRA be distributed over the expected life of the individual (or the joint lives of the individual and a designated beneficiary). Roth IRAs are not subject to minimum distribution rules during the account owner's lifetime.

Coverdell Education Savings Accounts: Taxpayers may elect to contribute up to $2,000 per year to an ESA for beneficiaries under age 18. The contribution limit is phased out for single filers with modified AGI between $95,000 and $110,000 and for joint filers with modified AGI between $190,000 and $220,000. Contributions are not deductible, but earnings on contributions accumulate tax-free. Distributions are excludable from gross income to the extent they do not exceed qualified education expenses that are incurred during the year the distributions are made and that are not used to claim another tax benefit (such as an education tax credit or a tax-free distribution from a QTP). The earnings portion of a distribution not used to cover qualified education expenses is includible in the gross income of the beneficiary and is generally subject to an additional 10 percent tax.

Except in the case of a special needs beneficiary, when a beneficiary reaches age 30, the account balance is deemed to have been distributed for nonqualified purposes. However, prior to the

beneficiary reaching age 30, tax-free (and penalty-free) rollovers of account balances may be made to an ESA benefiting another family member.

Section 529 Qualified Tuition Programs: Contributions to a QTP are not deductible from income for Federal tax purposes, but earnings on contributions accumulate tax-free. Taxpayers may exclude from gross income amounts distributed from a QTP and used for qualified higher education expenses, so long as the distribution is not used for the same educational expenses for which another tax benefit (such as an education tax credit or a tax-free distribution from an ESA) is claimed. Nonqualified distributions are subject to an additional tax. A change in the designated beneficiary of an account is not treated as a distribution, and therefore is not subject to income tax, if the new beneficiary is a member of the family of the prior beneficiary and is in the same or higher generation as the prior designated beneficiary. Neither contributors nor beneficiaries may direct the investment of the account.

There is no specific dollar cap on annual contributions to a QTP. In addition, there is no limit on contributions to a QTP account based on the contributor's income, contributions are allowed at any time during the beneficiary's lifetime, and the account can remain open after the beneficiary reaches age 30. However, a QTP must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of amounts necessary to provide for the qualified higher education expenses of the beneficiary.

Some States allow contributions to be excluded from income for State income tax purposes.

Saver's Credit: Taxpayers may receive a nonrefundable credit on up to $2,000 contributed to employer-sponsored elective deferral plans, IRAs, or Roth IRAs. An eligible taxpayer must be at least 18 years old, must not be eligible to be claimed as a dependent by another taxpayer, and must not be a full-time student. The credit is equal to a percentage of the amount contributed. The applicable percentage is based on AGI (adjusted for inflation) and filing status and is determined according to the following table for 2008:

Adjusted Gross Income						
Joint Return		Head of a Household		All other cases		
Over	Not Over	Over	Not Over	Over	Not Over	Applicable percentage
	$32,000		$24,000		$16,000	50
$32,000	$34,500	$24,000	$25,875	$16,000	$17,250	20
$34,500	$53,000	$25,875	$39,750	$17,250	$26,500	10
$53,000		$39,750		$26,500		0

Qualified contributions in determining the credit are reduced by any distributions from an elective deferral plan or IRA during the current tax year, the two preceding tax years, and the following year up to the due date of the return, including extensions.

Health Savings Accounts: Individuals who are covered by a qualifying high deductible health plan and not covered by any non-high deductible health plan other than certain permitted or disregarded coverage may contribute to an HSA that can be used to reimburse the individuals'

and their dependents' health expenses. Employers may also make contributions to employees' HSAs. The high deductible health plan may be provided by an employer or purchased in the individual insurance market. Individuals who are eligible for Medicare or to be claimed as a dependent on someone else's return may not contribute to an HSA. Contributions to HSAs are deductible and qualified distributions are excluded from gross income. Nonqualified distributions are subject to income tax and, if taken prior to age 65, an additional 10 percent tax.

Archer Medical Savings Accounts: Self-employed individuals and individuals employed by small employers maintaining a high deductible health plan (defined more restrictively than under the HSA provisions) are allowed to accumulate funds in an MSA on a tax-preferred basis to pay for medical expenses. An individual is eligible to establish an MSA only if the employee (or the employee's spouse) is covered by a high-deductible health plan (and not covered by any non-high deductible health plan). Although individuals with MSAs can continue to contribute to them as long as they are with an MSA participating employer, no new MSAs are permitted after the end of 2007 except with respect to individuals being hired after 2007 by an MSA-participating employer. Contributions to MSAs are deductible and qualified distributions are excluded from gross income. Nonqualified distributions are subject to income tax and, if taken prior to age 65, an additional 15 percent tax.

Reasons for Change

The plethora of individual savings accounts, each subject to different rules regarding eligibility, contributions, tax treatment, and withdrawal, creates complexity and redundancy in the Code. Taxpayers must determine their eligibility for each account separately and then must decide which plan or plans are best for them given their circumstances. Furthermore, as their circumstances change over time, taxpayers must continually re-evaluate their eligibility for each plan and which best meets their needs. The current list of non-retirement exceptions within IRAs weakens the focus on retirement saving, and the IRA exceptions and special purpose savings vehicles place a burden on taxpayers to document that withdrawals are used for certain purposes that Congress has deemed qualified. In addition, the restrictions on withdrawals and additional tax on early distributions discourage many taxpayers from making contributions because they are concerned about the inability to access the funds should they need them. Consolidating the three types of IRAs under current law into one account dedicated solely to retirement, and creating a new account that could be used to save for any reason would simplify the taxpayer's decision-making process while further encouraging savings.

Saving is further simplified and encouraged by recent administrative changes to the tax filing process that allow taxpayers to direct that their tax refunds be directly deposited into more than one account. Consequently, under the proposal described below, taxpayers would be able to direct that a portion of their tax refunds be deposited into a Retirement Savings Account or Lifetime Savings Account. Simplifying the rules, making savings opportunities universally available, and making it easier for people to set money aside through direct deposit will complement the Administration's commitment to programs focusing on financial education and, specifically, retirement planning.

Proposal

The proposal would consolidate the three types of current law IRAs into a single account: a Retirement Savings Account (RSA). RSAs would be dedicated solely to retirement savings; other withdrawals would be subject to tax and penalty as described below. Instead of a list of exceptions for penalty-free early withdrawals, a new account, a Lifetime Savings Account (LSA) would be created that could be used to save for any purpose, including retirement savings, health care, emergencies, and education.

Individuals could contribute up to $5,000 per year (or earnings includible in gross income, if less) to their RSA. A married couple filing a joint return could contribute up to $10,000 per year (or earning includible in gross income, if less). No income limits would apply to RSA contributions. Contributions would have to be in cash. Contributions would be nondeductible, but earnings would accumulate tax-free, and qualified distributions would be excluded from gross income. The RSA contribution limit would be indexed for inflation.

Qualified distributions from the RSA would be distributions made after age 58 or in the event of death or disability. Any other distribution would be a nonqualified distribution and, as with current nonqualified distributions from Roth IRAs, would be includible in income (to the extent it exceeds basis) and subject to a 10 percent additional tax. Distributions would be deemed to come from basis first. As with current law Roth IRAs, no minimum required distribution rules would apply to RSAs during the account owner's lifetime. Married individuals could roll amounts from their RSA over to their spouses' RSA.

Existing Roth IRAs would be renamed RSAs and be made subject to the new rules for RSAs. Existing traditional and nondeductible IRAs could be converted into an RSA by taking the conversion amount into gross income, similar to a current-law Roth conversion. However, no income limit would apply to the ability to convert. Taxpayers who convert IRAs to RSAs before January 1, 2010, could include the conversion amount in income ratably over 4 years. Conversions made on or after January 1, 2010, would be included in income in the year of the conversion. Existing traditional or nondeductible IRAs that are not converted to RSAs could not accept any new contributions. New traditional IRAs could be created to accommodate rollovers from employer plans, but they could not accept any new individual contributions. Individuals wishing to roll an amount directly from an employer plan to an RSA could do so by taking the rollover amount (excluding basis) into gross income (i.e., "converting" the rollover, similar to a current law Roth conversion).

Amounts converted to an RSA from a traditional IRA or from an Employer Retirement Savings Account (ERSA, discussed in next section) would be subject to a 5-year holding period. Distributions attributable to a conversion from a traditional IRA or ERSA (other than amounts attributable to a Roth-type account in an ERSA) prior to the end of the 5-year period starting with the year the conversion was made or, if earlier, the date on which the individual turns 58, becomes disabled, or dies would be subject to an additional 10 percent early distribution tax on the entire amount. The 5-year period is separately determined for each conversion contribution. To determine the amount attributable to a conversion, a distribution is treated as made in the following order: regular contributions; conversion contributions (on a first-in-first-out basis);

earnings. To the extent a distribution is treated as made for a conversion contribution, it is treated as made first from the portion, if any, that was required to be included in gross income because of the conversion.

Individuals could contribute up to $2,000 per year to their LSA, regardless of wage income. No income limits would apply to LSA contributions. Contributions would have to be in cash. The time period for which the contribution limit applies is the calendar year. Contributions would be nondeductible, but earnings would accumulate tax-free, and all distributions would be excluded from gross income, regardless of the individual's age or use of the distribution. As with current law Roth IRAs, no minimum required distribution rules would apply to LSAs during the account owner's lifetime.

Contribution limits would apply to all accounts held in an individual's name, rather than to contributors. Thus, contributors could make annual contributions of up to $2,000 each to the accounts of other individuals, but the aggregate of all contributions to all accounts held in a given individual's name could not exceed $2,000. The LSA contribution limit would be indexed for inflation.

Control over an account in a minor's name would be exercised exclusively for the benefit of the minor, until the minor reached the age of majority (determined under applicable State law), by the minor's parent or legal guardian acting in that capacity. Married individuals could roll amounts from their LSAs over to their spouses' LSAs.

Taxpayers would be able to convert balances in ESAs and QTPs to LSA balances. All conversions made before January 1, 2010, would be on a tax-free basis, subject to the following limitations. An amount can be rolled into an individual's LSA from a QTP only if that individual was the beneficiary of the QTP or ESA as of December 31, 2007. The amount that can be rolled over to an LSA from an ESA is limited to the sum of the amount in the accounts as of December 31, 2007, plus any contributions to and earnings on the accounts in 2008. The amount that can be rolled over to any LSA from a QTP is limited to the sum of (i) the lesser of $50,000 or the amount in the QTP as of December 31, 2007, plus (ii) any contributions and earnings to the QTP during 2008. Total rollovers to an individual's LSA attributable to 2008 contributions from the individual's ESAs and QTPs cannot exceed $2,000 (plus any earnings on those contributions).

QTPs would continue to exist as separate types of accounts, but could be offered inside an LSA. For example, State agencies that administer QTPs could offer LSAs with the same investment options available under the QTP. The plan administrator would be freed from the additional reporting requirements of a QTP for investments in an LSA, but investors would be subject to the annual LSA contribution limit. Distributions for purposes other than education would not be subject to Federal income tax or penalties. However, States would be free to provide State tax incentives, and administrators would be free to provide investment incentives, for savings used for educational purposes.

The Saver's Credit would apply to contributions to an RSA but would not apply to contributions to an LSA.

Both LSAs and RSAs would become effective beginning on January 1, 2009.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
0	1,527	3,545	3,023	1,075	-1,314	7,856	-592

CONSOLIDATE EMPLOYER-BASED SAVINGS ACCOUNTS

Current Law

Qualified Retirement Plans: Under Code section 401, employers may establish for the benefit of employees a retirement plan that may qualify for tax benefits, including a tax deduction to the employer for contributions, a tax deferral to the employee for elective contributions and their earnings, and a tax exemption for the fund established to pay benefits. To qualify for tax benefits, the plan must satisfy multiple requirements. Among the requirements, the plan may not discriminate in favor of highly-compensated employees (HCEs) with regard either to coverage or to amount or availability of contributions or benefits. The following covers certain, but not all, of the defined-contribution plan rules.

Contribution Limits. For 2008, the total annual contribution to a participant's account may not exceed the lesser of $46,000 (adjusted annually for inflation) or 100 percent of compensation.

General Nondiscrimination Requirement. Qualified plans, both defined-benefit and defined-contribution, must comply with the section 401(a)(4) prohibition on contributions or benefits that discriminate in favor of HCEs. Detailed regulations spell out the calculations required for satisfying this provision, including optional safe harbors and a general test for nondiscrimination.

Contribution Tests. In addition to the general nondiscrimination requirement, defined-contribution plans that have after-tax contributions or matching contributions are subject to the actual contribution percentage (ACP) test. This test measures the contribution rate to HCEs' accounts relative to the contribution rate to non-highly-compensated employees' (NHCEs') accounts. To satisfy the test, the ACP of HCEs generally cannot exceed the following limits: 200 percent of the NHCEs' ACP if the NHCEs' ACP is 2 percent or less; 2 percentage points over the NHCEs' ACP if the NHCEs' ACP is between 2 percent and 8 percent; or 125 percent of the NHCEs' ACP if the NHCEs' ACP is 8 percent or more.

Three "safe-harbor" designs are deemed to satisfy the ACP test automatically for employer matching contributions (up to 6 percent of compensation) that do not increase with an employee's rate of contributions or elective deferrals. In the first, vested employer matching contributions on behalf of NHCEs are made equal to 100 percent of elective deferrals up to 3 percent of compensation, and 50 percent of elective deferrals between 3 and 5 percent of compensation (or vested employer matching contributions follow an alternative matching formula such that the aggregate amount of matching contributions is no less than it would be under the basic design). In the second safe harbor, vested employer non-elective contributions of at least 3 percent of compensation are made on behalf of all eligible NHCEs. In the third design, the employer adopts an automatic contribution arrangement under which an employee is automatically enrolled at a specified contribution level unless the employee makes an affirmative election for another contribution level and the employer also makes specified contributions on behalf of the NHCEs. The specified contributions could be either matching contributions equal to 100 percent of elective deferrals up to 1 percent of compensation, and 50 percent of elective deferrals between 1 and 6 percent of compensation (or an alternative formula providing equivalent an level of matching contributions) or non-elective contributions that are at least 3

percent of compensation. Under this third safe harbor, the employer contributions must be vested after completion of 2 years of service.

Vesting. In general, employer contributions must vest at least as quickly as under one of the following schedules. Under graded vesting, 20 percent of the benefit is vested after three years of service and an additional 20 percent vests with each additional year of service, so that the employee is fully vested after seven years of service. Under cliff vesting, the employee has no vested interest until five years of service has been completed, but is then fully vested. However, matching contributions must vest more quickly: under graded vesting, the first 20 percent must vest after two years of service, so that the employee is fully vested after six years of service, and under cliff vesting, the employee becomes fully vested after three years of service.

401(k) plans. Private employers may establish 401(k) plans, which allow participants to choose to take compensation in the form of cash or a contribution to a defined-contribution plan ("elective deferral"). In addition to the rules applying to qualified defined-contribution plans, 401(k) plans are subject to additional requirements.

Annual deferrals under a 401(k) plan may not exceed $15,500 in 2008. Participants aged 50 or over may make additional "catch-up" deferrals of up to $5,000. These contribution limits are indexed annually for inflation. Elective deferrals are immediately fully vested.

401(k) plans are subject to an actual deferral percentage (ADP) test, which generally measures employees' elective-deferral rates. In applying the ADP test, the same numerical limits are used as under the ACP test. Three 401(k)-plan "safe-harbor" designs (similar to the safe-harbor designs for the ACP test described above) are deemed to satisfy the ADP test automatically.

SIMPLE 401(k) plans. Employers with 100 or fewer employees and no other retirement plan may establish SIMPLE 401(k) plans. Deferrals of SIMPLE participants may not exceed $10,500. SIMPLE participants aged 50 or over may make additional "catch-up" deferrals of up to $2,500. All contributions are immediately fully vested. In lieu of the ADP test, SIMPLE plans are subject to special contribution requirements, including a lower annual elective deferral limit and either a matching contribution not exceeding 3 percent of compensation or non-elective contribution of 2 percent of compensation. Employer contributions and employee deferrals may be made to SIMPLE IRAs under rules very similar to those applicable to SIMPLE 401(k) plans.

Thrift plans. Employers may establish thrift plans under which participants may choose to make after-tax cash contributions. Such after-tax contributions, along with any matching contributions that an employer elects to make, are subject to the ACP test (without the availability of an ACP safe harbor). Employee contributions under a thrift plan are not subject to the $15,500 limit that applies to employee pre-tax deferrals.

Roth-treatment of contributions. Effective after December 31, 2005, participants in 401(k) and 403(b) plans can elect Roth treatment for their contributions. That is, contributions would not be excluded from income and distributions would not be included in income. Roth contributions must be accounted for in a separate account. There are no required minimum distributions

during an employee's lifetime, but heirs, other than a spouse, are subject to required minimum distributions.

Salary reduction simplified employee pensions (SARSEPs). Employees can elect to have contributions made to a SARSEP or to receive the amount in cash. The amount the employee elects to have contributed to the SARSEP is not currently includible in income and is limited to the dollar limit applicable to employee deferrals in a 401(k) plan. SARSEPs are available only for employers who had 25 or fewer eligible employees at all times during the prior taxable year and are subject to a special nondiscrimination test. The rules permitting SARSEPs were repealed in 1996, but employee deferral contributions can still be made to SARSEPs that were established prior to January 1, 1997.

403(b) plans: Section 501(c)(3) organizations and public schools may establish tax-sheltered annuity plans, also called 403(b) plans. The rules applicable to these plans are different in certain respects than rules applicable to qualified plans under section 401. Benefits may generally only be provided through the purchase of annuities or contributions to a custodial account invested in mutual funds. Contribution limits (including catch-ups), deferral limits, and minimum distribution rules are generally the same as for 401(k) plans. However, certain employees with 15 years of service may defer additional amounts according to a complicated three-part formula. Some 403(b) plans are subject to nondiscrimination rules.

Governmental 457(b) plans: State and local governments may establish eligible plans under section 457(b).[3] In general, these plans are subject to different rules than qualified plans that are defined under section 401. Contributions and plan earnings are tax-deferred until withdrawal. Contributions may not exceed the lesser of 100 percent of compensation or $15,500 in 2008. However, participants may make additional contributions of up to twice the standard amount in the last three years before normal retirement age. Additional "catch-up" contributions of up to $5,000 may be made for participants age 50 or over.

Reasons for Change

The rules covering employer retirement plans are among the lengthiest and most complicated sections of the Code and associated regulations. The extreme complexity imposes substantial compliance, administrative, and enforcement costs on employers, participants, and the government (and hence, taxpayers in general). Moreover, because employer sponsorship of a retirement plan is voluntary, the complexity discourages many employers from offering a plan at all. This is especially true of the small employers who together employ about two-fifths of American workers. Complexity is often cited as a reason the coverage rate under an employer retirement plan has not grown above about 50 percent overall, and has remained under 25 percent among employees of small firms. Reducing unnecessary complexity in the employer plan area would save significant compliance costs and would encourage additional coverage and retirement saving.

[3] Tax-exempt organizations are also permitted to establish eligible section 457(b) plans, but such plans are not funded arrangements and are generally limited to management or highly compensated employees.

Proposal

The proposal would consolidate those types of defined-contribution accounts that permit employee deferrals or employee after-tax contributions, including 401(k), SIMPLE 401(k), Thrift, 403(b), and governmental 457(b) plans, as well as SIMPLE IRAs and SARSEPs, into Employer Retirement Savings Accounts (ERSAs), which would be available to all employers and have simplified qualification requirements.

The proposal would become effective for years beginning after December 31, 2008.

ERSAs would follow the existing rules for 401(k) plans, subject to the plan qualification simplifications described below. Thus, employees could defer wages of up to $15,500 (as adjusted for inflation) annually, with employees aged 50 and older able to defer an additional $5,000 (as adjusted for inflation). The maximum total contribution (including employer contributions) to ERSAs would be the lesser of 100 percent of compensation or $46,000 (as adjusted for inflation). The taxability of contributions and distributions from an ERSA would be the same as contributions and distributions from the plans that the ERSA would be replacing. Thus, contributions could be pre-tax deferrals or after-tax employee contributions or Roth contributions, depending on the design of the plan. Distributions of Roth and non-Roth after-tax employee contributions and qualified distributions of earnings on Roth contributions would not be included in income. All other distributions would be included in the participants' income.

Existing 401(k) and Thrift plans would be renamed ERSAs and could continue to operate as before, subject to the simplification described below. Existing SIMPLE 401(k) plans, SIMPLE IRAs, SARSEPs, 403(b) plans, and governmental 457(b) plans could be renamed ERSAs and be subject to ERSA rules, or could continue to be held separately, but if held separately could not accept any new contributions after December 31, 2009, with a special transition for collectively bargained plans and plans sponsored by State and local governments.

Special Rule for Small Employers. Employers that had 10 or fewer employees making at least $5,000 during the prior year would be able to fund an ERSA by contributing to a custodial account, similar to a current-law IRA, provided the employer's contributions satisfy the design-based ERSA safe harbor described below. This custodial account would provide annual reporting relief for small employers as well as relief from most of the ERISA fiduciary rules under circumstances similar to the fiduciary relief currently provided to sponsors of SIMPLE IRAs.

ERSA Nondiscrimination Testing. The following single test would apply for satisfying the nondiscrimination requirements with respect to contributions for ERSAs: the average contribution percentage of HCEs could not exceed 200 percent of NHCEs' percentage if the NHCEs' average contribution percentage is 6 percent or less. In cases in which the NHCEs' average contribution percentage exceeds 6 percent, the goal of increasing contributions among NHCEs would be deemed satisfied, and no nondiscrimination testing would apply. For this purpose, "contribution percentage" would be calculated for each employee as the sum of all employee and employer contributions divided by the employee's compensation. The ACP and ADP tests would be repealed. Plans sponsored by State and local governments or churches

would not be subject to this test. A plan sponsored by a section 501(c)(3) organization would not be subject to this nondiscrimination test (unless the plan permits after-tax or matching contributions) but would be required to permit all employees of the organization to participate.

ERSA Safe Harbor. A design-based safe harbor would be sufficient to satisfy the nondiscrimination test for ERSAs described above. The design of the plan must be such that all eligible NHCEs are eligible to receive fully vested employer contributions (including matching or non-elective contributions, but not including employee elective deferrals or after-tax contributions) of at least 3 percent of compensation. To the extent that the employer contributions of 3 percent of compensation for NHCEs are matching contributions rather than non-elective contributions, the match formula must be one of two qualifying formulas. The first formula would be a 50 percent employer match for the elective contributions of the employee up to 6 percent of the employee's compensation. The second would be any alternative formula such that the rate of an employer's matching contribution does not increase as the rate of an employee's elective contributions increases, and the aggregate amount of matching contributions at such rate of elective contribution is at least equal to the aggregate amount of matching contributions which would be made if matching contributions were made on the basis of the percentages described in the first formula. In addition, the rate of matching contribution with respect to an HCE at any rate of elective contribution cannot be greater than that with respect to an NHCE.

Revenue Estimate

			Fiscal Years				
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
			($ in millions)				
0	-80	-120	-132	-141	-150	-623	-1,484

Encourage Entrepreneurship and Investment

INCREASE EXPENSING FOR SMALL BUSINESS

Current Law

Section 179 provides that, in place of capitalization and subsequent depreciation, certain taxpayers may elect to deduct up to $125,000 of the cost of qualifying property placed in service each taxable year. The $125,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property exceeds $500,000. Both limitations are indexed annually for inflation for taxable years beginning after 2007 and before 2011. (For taxable years beginning after December 31, 2010, the maximum deduction amount reverts to $25,000, and the phase-out of the deductible amount begins at $200,000, and neither amount will be indexed for inflation). Higher expensing amounts are allowed for investments in an empowerment zone or renewal community.

In general, qualifying property is defined as depreciable tangible personal property and certain depreciable real property that is purchased for use in the active conduct of a trade or business. For taxable years beginning after 2002 and before 2011, off-the-shelf computer software is considered qualifying property even though it is intangible property. An election for the section 179 deduction can be revoked on an amended return for taxable years beginning after 2002 and before 2011. In other years, elections can only be revoked with the consent of the Commissioner.

Reasons for Change

The temporary expansion of section 179 provides a number of benefits to small business taxpayers and the economy. Expensing encourages investment by lowering the after-tax cost of capital purchases, relative to claiming regular depreciation deductions. Expensing is also simpler than claiming regular depreciation deductions, which is particularly helpful for small businesses. Including off-the-shelf computer software in section 179 means that purchased software is not disadvantaged relative to developed software (for which development costs can generally be expensed). Allowing revocations of section 179 elections to be made on amended returns helps less sophisticated taxpayers, who may not always be aware of the implications of section 179 expensing when they file their initial tax return. Inflation-adjusting the specified dollar amounts ensures that the benefits of section 179 do not apply to an ever-shrinking share of business taxpayers.

A further expansion of section 179 would extend the benefits of expensing to more taxpayers and would also simplify tax accounting for them. Making the expansion permanent would allow these businesses to improve their planning of future investments.

Proposal

The proposal would expand the expensing provisions of section 179. Specifically, the proposal would increase the maximum amount of qualified property that a taxpayer may deduct under

section 179 to $200,000, raise the amount of total qualifying investment at which the phase-out begins to $800,000 per year, and permanently include off-the-shelf computer software as qualifying property. Both the deduction limit and phase-out threshold would be indexed annually for inflation. In addition, the proposal would allow expensing elections to be made or revoked on amended returns. Furthermore, the Administration also proposes to make the higher amounts under section 179 permanent.

The proposal would be effective for property placed in service in taxable years beginning on or after January 1, 2009. The $200,000 and $800,000 amounts would be indexed for inflation for any taxable year beginning in a calendar year after 2009.

Revenue Estimate

			Fiscal Years				
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
			($ in millions)				
0	-1,086	-1,495	-1,083	-851	-688	-5,203	-7,578

Invest in Health Care

PROVIDE A NEW STANDARD DEDUCTION FOR HEALTH INSURANCE (SDHI) ($15,000 FOR FAMILY COVERAGE AND $7,500 FOR SINGLE COVERAGE)

<u>**Current Law**</u>

The cost of health coverage paid by an employer on behalf of employees is excludible for income and employment tax purposes. The employee's portion of the cost of employer-sponsored coverage is also excludible for income and employment tax purposes if it is paid through a cafeteria plan. Out-of-pocket expenses can also be excluded from income and employment taxes if they are paid through a health flexible spending arrangement (FSA) under a cafeteria plan.

Taxpayers' health insurance premiums paid outside of the employment context (or paid outside of a cafeteria plan) as well as other medical expenses generally are not deductible except by taxpayers who itemize their deductions and only to the extent they exceed 7.5 percent of adjusted gross income. Medical expenses and insurance premiums paid outside of the employment context are never excludible for employment tax purposes.

Medical costs paid through a health savings account (HSA) or Archer medical savings account (MSA) are generally excludible for income tax purposes, although the ability to pay health insurance premiums through an HSA is limited.

Premiums for health insurance paid by self-employed individuals who are not eligible for subsidized employer coverage are deductible in computing adjusted gross income.

<u>**Reasons for Change**</u>

There are a number of ways the current exclusion for employer-based health coverage encourages employers to provide more coverage than necessary and has resulted in higher and less efficient health spending. The value of the current exclusion increases with the amount of insurance an employee purchases. This creates a tax bias in favor of more expensive insurance. Such insurance often has low deductibles or first dollar coverage, which reduces consumers' sensitivity to the cost of health insurance because they are not exposed to the true cost of health care. As a result, workers tend to channel more of their routine health expenses through their employer-based insurance.

Workers who do not receive insurance through their employer but who purchase health insurance directly typically receive no tax benefit for buying health insurance. They pay for insurance after paying income and payroll taxes on their wages. In contrast, the health insurance premiums for workers who receive insurance through their jobs are subject to neither income nor payroll taxes. This disparate tax treatment can increase the after-tax cost of insurance purchased directly by individuals by as much as 50 percent. The after-tax cost of purchasing insurance is also higher for the self-employed who receive an income tax deduction, but no deduction for payroll tax purposes.

Many people are uninsured because their employers do not offer health benefits. These people are generally not eligible for tax subsidized health insurance. One way of eliminating the tax bias towards more expensive coverage and eliminating the disparate tax treatment between workers who receive insurance through their employers and those who purchase insurance elsewhere, or who remain uninsured, would be to replace the current law exclusion for employer-provided health insurance with a standard deduction for health insurance as proposed below. Alternatively the current tax preference could be replaced with a refundable flat credit.

Proposal

A standard deduction for health insurance (SDHI) of $15,000 for family coverage ($7,500 for single coverage) would be provided to all families who purchase health insurance that meets minimum requirements, whether directly or through an employer.

One-twelfth of the full SDHI would apply for each month that an individual has qualifying coverage (determined on the first of the month), regardless of how much a family or individual spends on health insurance. A family or individual that spends less on health insurance than the full SDHI would still receive the full SDHI. The SDHI would apply for purposes of both the income and payroll taxes.

The new SDHI would replace the existing exclusion for employer-based health insurance, the self-employed premium deduction, and the medical itemized deduction. The SDHI would not be available for an individual enrolled in Medicare, except that those who are enrolled in Medicare but are receiving health coverage from an employer as an active employee would be eligible for the SDHI beginning on January 1, 2014. The current deduction or exclusion from income of health care spending, whether for insurance premiums or out-of-pocket expenses, except under an HSA, would be repealed. Itemized medical deductions would be available only for taxpayers enrolled in Medicare. However, beginning on January 1, 2014, eligibility for the itemized deduction would be broadened somewhat to include anyone not otherwise eligible for the SDHI.

The value of employer-provided health insurance coverage would be subject to withholding and employment taxes. Employers would exclude a pro-rated portion of the SDHI for purposes of the employee portion of employment taxes prior to 2013 and for the employee and employer portion of employment taxes after 2012 for their employees who have qualifying coverage. Prior to 2013, employees would be entitled to a return of the employer portion of employment taxes paid on the SDHI when they file their tax return after the end of the year. Withholding and estimated taxes could be adjusted to reflect the SDHI. Businesses would continue to deduct employer-based health insurance as a business expense. In addition, the phase-out rate for the earned income tax credit (EITC) for taxpayers with qualifying children would be reduced to 15 percent.

Insurance coverage that qualifies a taxpayer for the SDHI, must meet certain minimum coverage requirements, including:

- A limit on out-of-pocket costs to the individual for covered expenses that is not higher than that currently allowable for HSAs (e.g., for 2008, those limits would be $5,600 for single coverage and $11,200 for family coverage).
- A reasonable annual and/or lifetime benefit maximum.
- Coverage for inpatient and outpatient care, emergency benefits, and physician care.
- Guaranteed renewability by the provider.

This minimum level of coverage is not intended to pre-empt State laws mandating certain coverage. Thus, eligible coverage would be subject to applicable State minimum coverage rules. Under regulations promulgated by the Treasury Department, the SDHI would be denied for coverage under policies that do not meaningfully limit individual economic exposure to extraordinary medical expenses. Long-term care insurance and Medicare would not qualify for the SDHI.

Generally, individuals (including dependents) enrolled in Medicare, Medicaid or the State Children's Health Insurance Program (SCHIP) would not qualify for the SDHI. Individuals would not be eligible to claim the SDHI if they claim the health coverage tax credit (available for certain individuals receiving trade readjustment assistance or a retirement benefit from the Pension Benefit Guaranty Corporation) or use tax-preferred distributions from HSAs or MSAs to pay for premiums. An individual who can be claimed as a dependent on another filer's return would not be eligible to claim the SDHI.

The new SDHI would address the rising cost of health insurance by removing the tax bias for more expensive insurance, while also providing a potent incentive for the uninsured to purchase insurance. The proposal would break the link between the value of the tax subsidy and the amount of insurance a worker purchases. The proposal also would level the playing field between less expensive and more expensive health insurance, and between wages and employer-provided health insurance.

Individuals and families would have a strong incentive to purchase insurance under the proposal. However, the insurance they choose to purchase would be based on their needs and circumstances rather than the tax bias in favor of health insurance and against wages. The tax bias for overly generous insurance would be eliminated. This change would translate into greater price sensitivity for health care consumers. Many of those with employer-based insurance would take advantage of the level playing field between wages and health insurance by receiving higher wages in exchange for less expensive health insurance.

Treasury estimates that about 8 million more people would have health insurance under the proposal.

The provision would be effective for tax years after December 31, 2008.

Revenue Estimate[4]

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
0	-23,188	-32,100	-25,853	-17,946	-6,581	-105,668	32,533

[4] The estimate includes both receipt and outlay effects. The outlay effect is $8,518 million for 2009-2018.

EXPAND AND MAKE HEALTH SAVINGS ACCOUNTS (HSAs) MORE FLEXIBLE

Current Law

Eligible individuals are allowed to accumulate funds in a Health Savings Account (HSA) on a tax-preferred basis to pay for medical expenses and retiree health coverage.

Eligibility: In order to contribute to an HSA, an individual must be covered by a high-deductible health plan (HDHP) and generally no other health plan except for certain permitted or disregarded coverage. Individuals who can be claimed as a dependent on someone else's return or who are enrolled in Medicare may not contribute to an HSA. An HSA may only be established on or after the first day of the first month that an individual is an eligible individual with HDHP coverage on the first day.

Tax Treatment of Contributions and Earnings: Employer contributions to HSAs are excluded from employee income for income and employment tax purposes. Individual contributions to HSAs are deductible in computing the individual's adjusted gross income (AGI), but are not deductible from payroll taxes. Earnings in an HSA accumulate tax-free.

Tax Treatment of Distributions: Withdrawals for qualified medical expenses of the HSA owner, the owner's spouse or dependent are not taxable. Qualified medical expenses are generally medical expenses as defined for the itemized medical expense deduction, with the addition of nonprescription drugs. However, qualified medical expenses do not include payments for insurance except in certain limited situations – a health plan during any period of continuation coverage under COBRA or other Federal law; qualified long-term care insurance, a health plan while an individual is receiving unemployment compensation under Federal or State law, or individuals who have reached age 65 (other than Medicare supplemental policies). Thus, most purchases of insurance with HSA funds are included in income and subject to the 10 percent tax on non-medical withdrawals to the extent applicable. There is no limit on the time for reimbursing qualified medical expenses that are incurred after the HSA is established. Nonmedical withdrawals are subject to an additional 10 percent tax if made before age 65 and are includable in income regardless of age. Reimbursements of qualified medical expenses that are excluded from income only include medical expenses incurred after the HSA is established. Consequently, where HDHP coverage begins after the first day of the month, any expenses incurred prior to the first day of the next month may not be reimbursed by the HSA on a tax-favored basis.

HDHPs: In order to be an HDHP, a plan in 2008 must have a deductible of at least $1,100 for self-only coverage or $2,200 for family coverage. An HDHP in 2008 may not have a total out-of-pocket exposure of more than $5,600 for self-only coverage or $11,200 for family coverage. The deductible minimums and out-of-pocket maximums are indexed for inflation. The out-of-pocket amount includes the deductible as well as copays and other amounts a covered individual must pay for covered benefits. For network plans, the out-of-pocket requirement only includes the out-of-pocket amounts for benefits provided in network. Out-of-pocket expenses do not include amounts paid by covered individuals for benefits excluded by reasonable benefit restrictions or exclusions.

Contribution Limits: Annual contributions to HSAs are limited to $2,900 (for self-only coverage in 2008) or $5,800 (for family coverage in 2008). Maximum contributions are based on the sum of monthly limits, with contributions pro rated for individuals who are not eligible individuals for the entire year. Under certain circumstances, such as the initial year of HDHP coverage, an individual will be entitled to an entire year's contribution limit for less than a full year's HDHP coverage, subject to a recapture of some of that contribution (plus an additional 10 percent tax on the recaptured amount) if the individual does not remain in an HDHP for the 12-month period following the end of that year.

A special rule applies for determining HSA contributions by married individuals with family HDHP coverage. If one spouse has family coverage, both spouses are generally treated as having family coverage. The maximum annual family HSA contribution is divided between the spouses equally unless they agree on a different division, which can include allocating the entire contribution to one spouse. For this purpose, family coverage is defined as anything that is not self-only coverage; thus, family HDHP coverage (supporting a family-level contribution) is health coverage that covers one eligible individual and at least one other individual, regardless of the other individual's coverage. A married individual with individual HDHP coverage may not make contributions to his or her spouse's HSA based on the married individual's self-only HDHP coverage.

In addition to the annual contribution, individuals who attain age 55 during the year are allowed to make an additional catch-up contribution. The catch up amount is $900 in year 2008 and $1000 for years after 2008. Catch-up contributions are pro rated for the number of months that the HSA owner is an eligible individual. If both spouses qualify for the catch-up contribution, both spouses are allowed the additional HSA contribution amount. However, one spouse is not permitted to have his or her catch-up contribution made to the HSA owned by the other spouse.

Employer Contributions: Employer contributions to HSAs are subject to comparability rules that generally require that if the employer contributes to one employee's HSA, the employer must contribute the same amount or percentage of the HDHP deductible to all employees who are eligible individuals with comparable (i.e., self-only or family) coverage. The comparability rules do not apply to contributions made through a cafeteria plan.

HRAs and FSAs: Health reimbursement arrangements (HRAs) and flexible spending arrangements (FSAs) are employer-sponsored plans which allow employers to reimburse substantiated employee medical expenses up to a maximum amount. Unlike an FSA, unused HRA amounts may be used in later years and HRAs may not be funded by salary reduction. HRAs and FSAs are employer-provided health coverage that disqualify individuals from contributing to HSAs unless the HRA or FSA is designed to be compatible with HSA, such as being limited to reimbursing certain permitted or disregarded coverage and preventive care (limited purpose HRAs or FSAs), reimbursing expenses after the deductible of the HDHP is satisfied (post-deductible HRAs or FSAs), or combinations. The disqualification from HSA contributions applies regardless of whether the HRA or FSA coverage is provided by the employer of the individual or spouse of the individual.

Reasons for Change

Health care costs continue to rise rapidly in the United States. Empowering health care consumers to play a more direct role in their health care decisions, rather than third party payers, would help to stem this trend. A health care system that is more market-oriented and consumer driven will help control costs and result in health care that is more affordable and accessible. This goal can be facilitated by making HSAs more flexible and increasing the incentive for individuals to change to HSA-eligible coverage.

Proposal

1. *Plans with 50-percent coinsurance would qualify as HDHPs.* Health plans would be considered HSA-eligible if they meet all the existing requirements of an HDHP except that, in lieu of satisfying the minimum deductible requirement, they have at least a 50 percent or higher coinsurance requirement and a minimum out-of-pocket exposure that, under guidelines established by the Secretary, would result in the same (or lower) premium as coverage under a high deductible health plan under the current requirements for the same family or individual.

2. *For HSA purposes, include as qualified medical expenses any medical expense incurred on or after the first day of HSA eligibility in a year.* The existing rule that denies tax-free treatment for HSA funds used to pay medical expenses incurred prior to the establishment of the HSA would be changed so that HSA funds could be used to pay medical expenses incurred on or after the first day of eligibility in a particular year, as long as the HSA is established no later than the date for filing the return for that taxable year. This will provide more time for newly eligible taxpayers to set up their HSAs.

3. *Allow larger contributions from employers for the chronically ill.* Contributions to HSAs on behalf of employees who are chronically ill or employees who have spouses or dependents who are chronically ill would be excluded from the comparability rules to the extent the contributions exceed the comparable contributions for other employees.

4. *Allow family coverage to include coverage where each individual in the family can receive benefits once they have reached the minimum deductible for an individual HDHP.* Many types of family coverage provide for an overall deductible that meets the requirements for family HDHP coverage, but include embedded deductibles for each family member below the minimum family deductible. Under current law this does not constitute an HDHP. Under the proposal, such coverage would constitute a family HDHP if each individual embedded deductible is at least the minimum deductible for individual HDHP coverage and the overall deductible is at least the minimum deductible for family HDHP coverage.

5. *If both spouses are eligible individuals, allow both spouses to contribute the catch-up contribution to a single HSA owned by one spouse.*

6. *Allow contributions to HSAs to be made by individuals covered by an FSA or HRA, but offset the maximum allowable HSA contribution by the level of FSA or HRA coverage.* Currently, FSA or HRA participation generally disqualifies individuals from contribution to HSAs because of the first dollar nature of FSAs and HRAs. This proposal would make it much easier for individuals who change from a non-HDHP to an HDHP when they have HRA or FSA coverage.

All of the changes described above would apply for tax years beginning after December 31, 2008.

Revenue Estimate

			Fiscal Years				
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
			($ in millions)				
High coinsurance policies eligible for HSAs							
0	-352	-663	-804	-895	-975	-3,689	-10,015
Other HSA enhancements							
0	-68	-116	-127	-136	-148	-595	-1,496
Total							
0	-420	-779	-931	-1,031	-1,123	-4,284	-11,511

ALLOW THE ORPHAN DRUG TAX CREDIT FOR CERTAIN PRE-DESIGNATION EXPENSES

Current Law

Taxpayers may claim a 50-percent credit for expenses related to human clinical testing of drugs for the treatment of certain rare diseases and conditions, generally those that afflict less than 200,000 persons in the United States (orphan drug credit). Qualifying expenses are those paid or incurred by the taxpayer after the date on which the drug is designated as a potential treatment for a rare disease or disorder by the Food and Drug Administration (FDA) in accordance with section 526 of the Federal Food, Drug, and Cosmetic Act. Research expenses claimed for the orphan drug credit are not eligible for the credit for increasing research under section 41 of the Code.

Reasons for Change

Currently, expenditures for human clinical trials are eligible for the credit only after the FDA designates the drug as a potential treatment for a rare disease or condition. Expenses for clinical trials that the taxpayer undertakes while the FDA reviews the taxpayer's application for designation are ineligible. This creates an incentive to defer clinical testing for orphan drugs until the taxpayer receives the FDA's approval and creates complexity for taxpayers by treating pre-designation and post-designation clinical expenses differently. The proposal would reduce the incentive to defer clinical testing while the FDA reviews the taxpayer's application for designation of a drug as an orphan drug and simplify the credit by treating pre-designation expenses and post-designation expenses equally.

Proposal

Taxpayers that incur expenses prior to FDA designation would be permitted to claim the orphan drug credit for these expenses if the drug receives FDA designation as a potential treatment for a rare disease or condition before the due date (including extensions) for filing the tax return for the year in which the FDA application was filed.

The proposal would be effective for qualified expenses incurred after December 31, 2007.

Revenue Estimate

[No revenue effect]

Provide Incentives for Charitable Giving

PERMANENTLY EXTEND TAX-FREE WITHDRAWALS FROM IRAS FOR CHARITABLE CONTRIBUTIONS

Current Law

Eligible individuals may make deductible contributions to a traditional individual retirement arrangement (traditional IRA). Other individuals with taxable income may make nondeductible contributions to a traditional IRA. Earnings and pre-tax contributions in a traditional IRA are includible in income when withdrawn. Withdrawals made before age 59½ are subject to an additional 10-percent excise tax, unless an exception applies.

Individuals with adjusted gross incomes (AGI) below certain levels may make nondeductible contributions to a Roth IRA. Amounts withdrawn from a Roth IRA as a qualified distribution are not includible in income. A qualified distribution is a distribution made (1) after 5 years and (2) after the holder has attained age 59½, died, or become disabled, or for first-time homebuyer expenses of up to $10,000. Distributions from a Roth IRA that are not qualified distributions are includible in income to the extent the distributions are attributable to earnings, and are also subject to an additional 10-percent excise tax, unless an exception applies.

Individual taxpayers who itemize their deductions may claim a deduction for contributions made to qualified charitable organizations. Total deductible contributions may not exceed 50 percent of the taxpayer's AGI, and lower deductibility limits apply in the case of contributions of appreciated property and contributions to certain private foundations. Excess amounts may be carried forward and deducted in future years. In addition, the total of most categories of itemized deductions, including charitable contributions, is reduced by 1 percent of AGI in excess of a certain threshold ($159,950 for joint filers in 2008 up to a maximum reduction of 26 and 2/3 percent of total deductions). Taxpayers who elect the standard deduction ("non-itemizers") may not claim a deduction for charitable contributions.

Individuals may exclude from gross income (and thus from AGI for all purposes under the Code) distributions made after age 70½ from a traditional or Roth IRA (but not a SIMPLE IRA or SEP IRA) directly to a qualified charitable organization. The exclusion may not exceed $100,000 per taxpayer per taxable year and is available without regard to the percentage-of-AGI limits that apply to deductible contributions.

The exclusion does not apply to distributions to certain private foundations, supporting organizations, or donor advised funds. The exclusion applies only if a charitable contribution deduction for the entire distribution would otherwise be allowed under current law, determined without regard to the percentage-of-AGI limitation. No charitable deduction is allowed with respect to any amount that is excludable from income under this provision. If an amount transferred from the IRA would otherwise be nontaxable, such as a qualified distribution from a Roth IRA or the return of nondeductible contributions from a traditional IRA, the normal charitable contribution deduction rules apply. This exclusion is scheduled to expire on December 31, 2007.

Reasons for Change

Allowing taxpayers who are at the stage in their life when they are already required to take distributions from their IRAs to exclude from income direct transfers to qualified charities will stimulate additional charitable giving by simplifying the required tax calculations and eliminating the current-law tax disincentives. Permanency will maintain this incentive.

Proposal

The exclusion from income of qualified distributions made after age 70½ from a traditional or Roth IRA directly to a qualified charitable organization would be made permanent.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
0	-300	-551	-434	-284	-211	-1,780	-3,321

PERMANENTLY EXTEND THE ENHANCED CHARITABLE DEDUCTION FOR CONTRIBUTIONS OF FOOD INVENTORY

Current Law

A taxpayer's deduction for charitable contributions of inventory property generally is limited to the taxpayer's basis (typically, cost) in the inventory. However, for certain contributions of inventory, C corporations may claim an enhanced deduction equal to the lesser of (1) the taxpayer's basis in the contributed property, plus one-half of the gain that would have been realized had the property been sold or (2) two times basis. To be eligible for the enhanced deduction, the inventory must be contributed to a charitable organization (other than a private nonoperating foundation), and the donee must (1) use the property consistent with the donee's exempt purpose solely for the care of the ill, the needy, or infants, (2) not transfer the property in exchange for money, other property, or services, and (3) provide the taxpayer a written statement that the donee's use of the property will be consistent with these requirements. To claim the enhanced deduction, the taxpayer must establish that the fair market value of the donated item exceeds basis.

Through December 31, 2007, all businesses, and not just C corporations, are eligible for the enhanced deduction for donations of food inventory. For all businesses, the enhanced deduction is available only for donations of "apparently wholesome food" (food intended for human consumption that meets all quality and labeling standards imposed by Federal, State, and local laws and regulations, even though the food may not be readily marketable due to appearance, age, freshness, grade, size, surplus, or other conditions). In the case of a taxpayer other than a C corporation, the total deduction for donated food inventory for any taxable year may not exceed 10 percent of the taxpayer's net income from the related trade or business. Eligibility for the enhanced deduction by businesses other than C corporations is scheduled to expire on December 31, 2007.

Reasons for Change

The enhanced deduction for contributions of food inventory increases donations of food by all types of businesses. Permanent extension of this provision supports charities working to combat hunger.

Proposal

The proposal would make permanent the expansion of the enhanced deduction for donations of food inventory to all types of businesses and the clarification of the definition of eligible food.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-44	-96	-106	-116	-127	-140	-585	-1,524

PERMANENTLY EXTEND THE ENHANCED DEDUCTION FOR CORPORATE CONTRIBUTIONS OF COMPUTER EQUIPMENT FOR EDUCATIONAL PURPOSES

Current Law

A taxpayer's deduction for charitable contributions of inventory property generally is limited to the taxpayer's basis (typically, cost) in the inventory property. The Taxpayer Relief Act of 1997 provided an enhanced deduction for a three-year period for charitable contributions by C corporations of computer technology or equipment to elementary and secondary schools and charities formed for the purpose of supporting elementary and secondary education. In 2000, this provision was extended for an additional three-year period and expanded to apply to charitable contributions of computer technology or equipment to post-secondary educational institutions and public libraries. It was extended again in 2004. In 2006, this provision was extended for an additional two-year period. In addition, the definition of property eligible for the enhanced deduction was expanded to include property assembled by the taxpayer.

For contributions made in taxable years beginning before January 1, 2008, the amount of the deduction is equal to the lesser of (1) the taxpayer's basis in the contributed property, plus one-half of the gain that would have been realized had the property been sold, or (2) two times basis. To qualify for the enhanced deduction, the contribution must satisfy various requirements. This provision does not apply to contributions made in taxable years beginning after December 31, 2007.

Reasons for Change

This provision provides an incentive for C corporations to contribute computer equipment and software for the benefit of local communities and students at the elementary, secondary, and post-secondary school levels, by providing public libraries and educational institutions with needed technology resources. Because the need for technology resources is ongoing, this provision should be made permanent.

Proposal

The enhanced deduction for C corporation donations of computer equipment would be made permanent.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-50	-118	-147	-154	-162	-170	-751	-1,838

PERMANENTLY EXTEND INCREASED LIMITS ON CONTRIBUTIONS OF PARTIAL INTERESTS IN REAL PROPERTY FOR CONSERVATION PURPOSES

Current Law

In general, a deduction is permitted for charitable contributions, subject to certain limitations that depend on the type of taxpayer, the property contributed, and the donee organization. The amount of the deduction generally equals the fair market value of the contributed property on the date of the contribution.

Corporations generally are allowed to deduct charitable contributions up to a limit of 10 percent of taxable income (computed without regard to net operating or capital loss carrybacks). Individual taxpayers who itemize their deductions may claim a deduction for charitable contributions up to a percentage of the taxpayer's adjusted gross income (AGI) (computed without regard to any net operating loss carryback). The percentage limit for individuals varies depending on the type of donee organization and the type of property contributed. In general, the deduction for charitable contributions may not exceed 50 percent of AGI. However, lower percentage limits apply to contributions of capital gain property and contributions to certain private foundations. For example, the deduction for contributions of capital gain property to public charities, private operating foundations, and certain non-operating foundations generally may not exceed 30 percent of AGI. In general, in the case of both individuals and corporations, charitable contributions in excess of the percentage limits may be carried forward for up to five years.

Gifts of partial interests in property generally are not deductible as charitable contributions. However, to encourage donations for conservation purposes, the tax law provides an exception to the "partial interest" rule for qualified conservation contributions. A qualified conservation contribution is a contribution of a qualified real property interest (such as a remainder interest or a restriction (granted in perpetuity) on the use that may be made of the real property) to a qualified organization exclusively for conservation purposes. Qualified conservation contributions generally are subject to the same limitations and carryover rules as apply to other charitable contributions of capital gain property.

Through December 31, 2007, special percentage limits and carryover rules apply to contributions of partial interests in real property for conservation purposes. For contributions made prior to January 1, 2008, an individual taxpayer may deduct the fair market value of any qualified conservation contributions up to a limit equal to the excess of (i) 50 percent of AGI over (ii) the amount of all other allowable charitable contributions (determined under the general rules described above, but not taking into account the qualified conservation contributions). In the case of a qualified farmer or rancher, the limit is 100 percent of the excess of the individual taxpayer's AGI (or 100 percent of the corporation's taxable income) over the amount of all other allowable charitable contributions. In addition, for both individuals and corporations, the number of years that qualified conservation contributions in excess of these limits may be carried forward is increased to 15 years from 5 years.

Reasons for Change

Increasing the limits on the allowable deduction for qualified conservation contributions will stimulate charitable giving for conservation purposes by increasing the incentives to donors. Permanency will maintain the incentives.

Proposal

The increased limits on the deduction for qualified conservation contributions would be made permanent.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-48	-35	-22	-18	-21	-22	-118	-245

PERMANENTLY EXTEND THE BASIS ADJUSTMENT TO STOCK OF S CORPORATIONS CONTRIBUTING APPRECIATED PROPERTY

Current Law

If an S corporation contributes money or other property to a charity, each shareholder takes into account the shareholder's pro rata share of the contribution in determining the shareholder's income tax liability. Prior to the enactment of the Pension Protection Act of 2006 (PPA), a shareholder of an S corporation reduced the basis in the stock or indebtedness of the S corporation by the amount of the charitable contribution that flowed through to the shareholder. In many cases, a shareholder's basis in S corporation stock reflects the basis of the contributed property, whereas the charitable contribution deduction reflects the fair market value of the contributed property. As a result, pre-PPA law deprived some S corporation shareholders of the full benefit of the charitable contribution deduction.

Reasons for Change

PPA modified the rules for adjusting the basis of S corporation stock to preserve the benefit of providing a charitable contribution deduction for contributions of appreciated property by an S corporation. S corporation shareholders are allowed to adjust their basis in the stock by their pro rata share of the adjusted basis (not fair market value) of the contributed property. The provision applies only to charitable contributions made by an S corporation in taxable years beginning before January 1, 2008.

Proposal

The proposal would permanently extend the rule allowing S corporation shareholders to adjust their stock basis for a charitable contribution deduction by their pro rata share of the adjusted basis of contributed property.

Revenue Estimate

			Fiscal Years				
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
			($ in millions)				
-3	-15	-21	-25	-28	-32	-121	-354

REFORM EXCISE TAX BASED ON INVESTMENT INCOME OF PRIVATE FOUNDATIONS

Current Law

Private foundations that are exempt from Federal income tax generally are subject to a two-percent excise tax on their net investment income. The excise tax rate is reduced to one percent in any year in which the foundation's distributions for charitable purposes exceed the average level of the foundation's charitable distributions over the five preceding taxable years (with certain adjustments). Private foundations that are not exempt from Federal income tax, including certain charitable trusts, must pay an excise tax equal to the excess (if any) of the sum of the excise tax on net investment income and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. Under current law, private nonoperating foundations generally are required to make annual distributions for charitable purposes equal to at least five percent of the fair market value of the foundation's noncharitable use assets (with certain adjustments). The amount that a foundation is required to distribute annually for charitable purposes is reduced by the amount of the excise tax paid by the foundation.

Reasons for Change

The current "two-tier" structure of the excise tax on private foundation net investment income may discourage foundations from significantly increasing their distributions for charitable purposes in any particular year. Under the current formula, any increase in the foundation's percentage payout in a given year (by increasing the average percentage payout) makes it more difficult for the foundation to qualify for the reduced one percent excise tax rate in subsequent years. Eliminating the "two-tier" structure of this excise tax would ensure that private foundations do not suffer adverse excise tax consequences if they increase their grant-making in a particular year to respond to charitable needs. Such a change would also simplify tax planning and the calculation of the excise tax for private foundations. In addition, lowering the excise tax rate for all foundations would make additional funds available for charitable purposes.

Proposal

This proposal would replace the two rates of tax on private foundations that are exempt from Federal income tax with a single tax rate of one percent. The tax on private foundations not exempt from Federal income tax would be equal to the excess (if any) of the sum of the one-percent excise tax on net investment income and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The special reduced excise tax rate available to tax-exempt private foundations that maintain their historic level of charitable distributions would be repealed.

The proposal would be effective for taxable years beginning after December 31, 2008.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-105	-152	-152	-153	-154	-155	-766	-1,578

Strengthen Education

PERMANENTLY EXTEND THE ABOVE-THE-LINE DEDUCTION FOR QUALIFIED OUT-OF-POCKET CLASSROOM EXPENSES

Current Law

Individual taxpayers who itemize their deductions may claim a deduction for unreimbursed, job-related expenses to the extent those expenses and other miscellaneous deductions exceed 2 percent of adjusted gross income. Such deductions may not be allowed for purposes of the alternative minimum tax.

Taxpayers who are K-12 teachers and certain other school personnel in a school for at least 900 hours during a school year may deduct, whether or not they itemize, up to $250 paid or incurred in connection with books, supplies, computer equipment and other equipment and supplemental materials used in the classroom. This provision expired on December 31, 2007.

Reasons for Change

Teachers and other school personnel often incur expenses related to classroom activities that are not reimbursed. These expenditures enhance the quality of education received by students but diminish a teacher's properly measured ability to pay taxes. Allowing school personnel to deduct such expenditures on their Federal income tax return encourages dedicated personnel who supplement available school resources at their own expense.

Proposal

The above-the-line deduction for qualified out of pocket classroom expenses for teachers and certain other school personnel would be made permanent.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-18	-180	-183	-185	-188	-191	-927	-1,927

ALLOW THE SAVER'S CREDIT FOR CONTRIBUTIONS TO QUALIFIED TUITION PROGRAMS

Current Law

Under current law, taxpayers may receive a nonrefundable credit – the Saver's Credit – on up to $2,000 contributed to elective deferral plans or individual retirement accounts (IRAs). An eligible taxpayer must be at least 18 years old, must not be eligible to be claimed as a dependent by another taxpayer, and must not be a full-time student. Taxpayers must have compensation to be eligible to contribute to an elective deferral plan or IRA.

The credit is nonrefundable and is equal to a percentage of the amount contributed to elective deferral plans or IRAs. The applicable percentage is based on AGI (adjusted for inflation) and filing status and is determined according to the following table for 2008:

Adjusted Gross Income						
Joint Return		Head of a Household		All other cases		
Over	Not Over	Over	Not Over	Over	Not Over	Applicable percentage
	$32,000		$24,000		$16,000	50
$32,000	$34,500	$24,000	$25,875	$16,000	$17,250	20
$34,500	$53,000	$25,875	$39,750	$17,250	$26,500	10
$53,000		$39,750		$26,500		0

Qualified contributions in determining the credit are reduced by any distributions from an elective deferral plan or IRA during the current tax year, the two preceding tax years, and the following year up to the due date of the return including extensions.

Taxpayers may contribute to a Section 529 Qualified Tuition Program (QTP) to save for higher education expenses of a designated beneficiary. Contributions to a QTP are not deductible from income for Federal tax purposes, but earnings on contributions accumulate tax-free. Taxpayers may exclude from gross income amounts distributed from a QTP and used for qualified higher education expenses, so long as the distribution is not used for the same educational expenses for which another tax benefit (such as an education tax credit or a tax-free distribution from a Coverdell Education Savings Account) is claimed. Nonqualified distributions are subject to an additional tax. Some States allow contributions to be excluded from income for State income tax purposes.

There is no specific dollar cap on annual contributions to a QTP and no limit on contributions to a QTP account based on the contributor's income. However, a QTP must provide adequate safeguards to prevent contributions on behalf of a designated beneficiary in excess of amounts necessary to provide for the qualified higher education expenses of the beneficiary.

Reasons for Change

Almost one-third of American households have no financial assets and another fifth have only negligible assets available for investment. Many Americans are kept from entering the economic mainstream because they lack the financial resources to invest for long-term goals. Recent evidence suggests that low-income households respond to financial incentives in making savings decisions. Allowing the Saver's Credit for contributions to a QTP provides an incentive for low-income taxpayers to save for higher education.

Proposal

The proposal would allow the Saver's Credit for contributions to QTPs. As under current law, a taxpayer must be at least 18 years old, must not be eligible to be claimed as a dependent by another taxpayer, and must not be a full-time student in order to be eligible to receive the matching credit.

Adjusted gross income in determining the applicable rate for the Saver's Credit for QTP contribution would be modified to include the excludable portion of the taxpayer's Social Security benefits. The credit would apply to an annual aggregate contribution of up to $2,000 ($4,000 for a married couple filing a joint return), or earnings includible in gross income, if less, to the taxpayer's elective deferral plans, IRAs, and QTPs. For purposes of the credit, qualified contributions to a QTP must be made to an account over which the taxpayer is the person with the power to authorize distributions and to otherwise administer the account. Qualified contributions would be reduced by any distributions from an elective deferral plan, IRA, or QTP during the current tax year, the two preceding tax years, and the following tax year up to the due date of the return including extensions.

The credit would be available for contributions to QTPs beginning on January 1, 2009.

Revenue Estimate

			Fiscal Years				
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
			($ in millions)				
0	-88	-183	-198	-213	-227	-909	-2,259

Strengthen Housing

ALLOW TAX-EXEMPT QUALIFIED MORTGAGE BONDS TO REFINANCE HOME MORTGAGES TO PROVIDE RELIEF FOR SUBPRIME BORROWERS

Current Law

In general, the interest on bonds issued by State or local governments is excluded from gross income if the bonds meet certain eligibility requirements. There are two basic types of tax-exempt bonds: governmental bonds and private activity bonds. Bonds generally are treated as governmental bonds if the proceeds are used to carry out governmental purposes or the bonds are repaid with governmental funds. Tax-exempt governmental bonds are subject to various general restrictions, including arbitrage investment restrictions, registration and reporting requirements, Federal guarantee restrictions, advance refunding limitations, spending period limitations, and pooled bond limitations. Governmental bonds are not subject to specific volume limitations.

Bonds that have private business involvement or private loans exceeding certain levels are classified as "private activity bonds." In particular, bonds are classified as private activity bonds if more than 10 percent (reduced to 5 percent in the case of certain unrelated or disproportionate private business use) of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from private business sources. Bonds also are treated as private activity bonds if more than the lesser of $5 million or 5 percent of the bond proceeds are used to finance private loans, including business and consumer loans.

Private activity bonds may be issued on a tax-exempt basis only for certain prescribed projects and program purposes and only if they meet both certain general requirements for governmental bonds and additional requirements for qualified private activity bonds, including, among others, an annual unified State bond volume cap on most private activity bonds, an advance refunding prohibition, a public approval requirement, and an issuance cost limitation.

Current law allows State and local governments to issue one type of tax-exempt private activity bond, called "qualified mortgage bonds," to finance new mortgage loans to first-time homebuyers for owner-occupied single-family housing upon satisfaction of a number of program eligibility requirements and subject to an annual private activity bond volume cap. Current program eligibility requirements for qualified mortgage bonds include the following. Eligible loans generally must be new loans (as contrasted with refinancing loans), with certain limited exceptions. Eligible homebuyers generally cannot have owned homes within the previous three years (the "first-time homebuyer" requirement). Purchase prices of eligible homes cannot exceed 90% of average area purchase prices (increased to 110% of such prices in certain targeted areas). Incomes of eligible borrowers generally cannot exceed 115% of applicable median family income (increased to 140% of such income for certain targeted area residences). In addition, the borrower income limits also are increased by formula for certain high-cost areas. Special arbitrage restrictions limit the effective interest rates on financed loans to not more than 1.125% above the bond yield. The income on these tax-exempt bonds is a preference item for purposes of alternative minimum tax.

Reasons for Change

State and local governments, particularly State housing finance agencies, have significant ongoing tax-exempt bond programs to finance lower cost mortgage loans to enable eligible first-time homebuyers to purchase homes. These State and local governments have loan program systems in place that would allow them to serve an expanded role in providing lower cost financing relief to subprime borrowers as one avenue to ameliorate the impact of the current subprime lending difficulties. In addition, certain States have initiated limited programs, sometimes with taxable loan funds, to help subprime borrowers refinance escalating variable rate loans with lower cost fixed rate loans. State and local governments potentially could provide greater amounts and more significant levels of lower cost financing relief to subprime borrowers if tax-exempt qualified mortgage bond financing were available for refinancing mortgages.

Proposal

The proposal would amend the program requirements for tax-exempt qualified mortgage bonds to allow State and local governments to use these tax-exempt bonds to refinance existing loans to assist eligible subprime borrowers. The proposal would provide temporary authority to use tax-exempt qualified mortgage bonds for subprime refinancings during the three years from 2008 through 2010.

The proposal also would increase the annual private activity bond volume cap by a total amount of $15 billion (equivalent to $5 billion per year for three years) for use in the three years 2008 through 2010 exclusively to refinance eligible subprime loans. The increased volume cap would be allocated among the States in proportion to population in the same manner that private activity bond volume cap regularly is allocated, except that this volume cap would be dedicated specially to eligible subprime loan refinancings.

The proposal would target the program to a defined class of eligible subprime borrowers with loans with a reasonably foreseeable risk of default and a reasonable potential to avoid default with a lower cost refinancing. The proposal would provide discretion and flexibility to State and local governmental issuers to tailor their programs to local needs.

The proposal would make certain technical changes to the current program requirements for qualified mortgage bonds to accommodate refinancing loans to subprime borrowers, such as exceptions to the new loan requirement and first-time homebuyer requirement and tailored application of purchase price and income limits at the time of refinancing.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-27	-116	-230	-305	-329	-331	-1,311	-2,687

Protect the Environment

PERMANENTLY EXTEND EXPENSING OF BROWNFIELDS REMEDIATION COSTS

Current Law

Taxpayers can elect to treat certain environmental remediation expenditures that would otherwise be chargeable to a capital account as deductible in the year paid or incurred. The deduction applies for both regular and alternative minimum tax purposes. The expenditure must be incurred in connection with the abatement of hazardous substances at a qualified contaminated site (so-called "brownfields"). This provision applies only to expenditures paid or incurred before January 1, 2008.

Hazardous substances are defined generally for purposes of the brownfields provision by reference to sections 101(14) and 102 of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). A qualified contaminated site generally is any property that (1) is held for use in a trade or business, for the production of income, or as inventory; (2) contains (or potentially contains) a hazardous substance; and (3) is certified by the appropriate State environmental agency as to the presence (or potential presence) of a hazardous substance. However, sites that are identified on the national priorities list under CERCLA do not qualify as qualified contaminated sites.

The Tax Relief and Health Care Act of 2006 expanded the definition of hazardous substance to include petroleum products (including crude oil) for remediation expenditures paid or incurred after December 31, 2005, and before January 1, 2008.

Reasons for Change

Encouraging environmental remediation is an important national goal. The brownfields provision encourages the cleanup of contaminated brownfields, thereby enabling them to be brought back into productive use in the economy and mitigating potential harms to public health. Extending the special treatment accorded to brownfields on a permanent basis would remove doubt among taxpayers as to the deductibility of future remediation expenditures and would promote the goal of encouraging environmental remediation.

Proposal

The expensing of brownfield remediation expenditures would be made permanent.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
-180	-501	-356	-343	-327	-284	-1,811	-2,870

ELIMINATE THE VOLUME CAP FOR PRIVATE ACTIVITY BONDS FOR WATER INFRASTRUCTURE

Current Law

In general, the interest on bonds issued by State or local governments is excludable from gross income if the bonds meet certain eligibility requirements. State or local governments issue tax-exempt bonds to finance a wide range of public infrastructure projects. There are two basic kinds of tax-exempt bonds: governmental bonds and qualified private activity bonds. Bonds generally are treated as governmental bonds if the proceeds are used to carry out governmental purposes or the bonds are repaid with governmental funds. Bonds are classified as governmental bonds under a definition that limits private business use and private business sources of payment and also limits private loans. Governmental bonds are subject to various general restrictions, including arbitrage investment restrictions, registration and reporting requirements, Federal guarantee restrictions, advance refunding limitations, spending period limitations, and pooled bond limitations. Governmental bonds, however, are not subject to specific volume limitations.

Bonds that have excessive private business involvement or private loans are classified as "private activity bonds." In particular, bonds are classified as "private activity bonds" if more than 10 percent (reduced to 5 percent in the case of certain unrelated or disproportionate private business use) of the bond proceeds are both: (1) used for private business use; and (2) payable or secured from private sources. Bonds also are treated as private activity bonds if more than the lesser of $5 million or 5 percent of the bond proceeds are used to finance private loans, including business and consumer loans.

Private activity bonds may be issued on a tax-exempt basis only if they meet the general requirements for governmental bonds and the additional requirements necessary for "qualified private activity bonds." Qualified private activity bonds include exempt facility bonds, qualified mortgage bonds for single-family housing, qualified veterans' mortgage bonds, qualified small issue bonds, qualified student loan bonds, qualified redevelopment bonds, and qualified 501(c)(3) bonds. Eligible facilities for which exempt facility bonds may be issued include facilities for the furnishing of water and sewage facilities. Most qualified private activity bonds are subject to an annual unified State volume cap.

Reasons for Change

The nation's water and wastewater infrastructure facilities serve important national public policy interests in ensuring clean and safe drinking water and sanitation. There is a significant need for capital funding to upgrade the nation's water and wastewater infrastructure facilities. Removing the volume cap on tax-exempt qualified private activity bonds for water and wastewater infrastructure facilities would encourage additional needed private investment and public-private partnerships in these needed water infrastructure facilities.

Proposal

The proposal would provide an exception to the unified annual State volume cap on tax-exempt qualified private activity bonds for exempt facilities for the "furnishing of water" or "sewage facilities." The proposal would be effective for bonds issued after December 31, 2008, to finance water or sewer facilities. These bonds are intended to complement local efforts to move towards full cost pricing for wastewater and drinking water services, helping municipalities become self-financing and minimizing the need for future Federal expenditures.

Revenue Estimate

Fiscal Years							
2008	2009	2010	2011	2012	2013	2009-2013	2009-2018
($ in millions)							
0	0	-3	-6	-10	-15	-34	-214

Restructure Assistance to New York City

PROVIDE TAX INCENTIVES FOR TRANSPORTATION INFRASTRUCTURE

Current Law

The Job Creation and Worker Assistance Act of 2002 (the Act) provided tax incentives for the area of New York City damaged or affected by the terrorist attacks on September 11, 2001. The Act created the "New York Liberty Zone," defined as the area located on or south of Canal Street, East Broadway (east of its intersection with Canal Street), or Grand Street (east of its intersection with East Broadway) in the Borough of Manhattan in the City of New York, New York. New York Liberty Zone tax incentives included: (1) an expansion of the work opportunity tax credit (WOTC) for New York Liberty Zone business employees; (2) a special depreciation allowance for qualified New York Liberty Zone property; (3) a five-year recovery period for depreciation of qualified New York Liberty Zone leasehold improvement property; (4) $8 billion of tax-exempt private activity bond financing for certain nonresidential real property, residential rental property and public utility property; (5) $9 billion of additional tax-exempt, advance refunding bonds; (6) increased section 179 expensing; and (7) an extension of the replacement period for nonrecognition of gain for certain involuntary conversions.[5]

The expanded WOTC credit provided a 40 percent subsidy on the first $6,000 of annual wages paid to New York Liberty Zone business employees for work performed during 2002 or 2003.

The special depreciation allowance for qualified New York Liberty Zone property equals 30 percent of the adjusted basis of the property for the taxable year in which the property is placed in service. Qualified nonresidential real property and residential rental property must be purchased by the taxpayer after September 10, 2001, and placed in service before January 1, 2010. Such property is qualified property only to the extent it rehabilitates real property damaged, or replaces real property destroyed or condemned, as a result of the September 11, 2001, terrorist attacks. The provision is no longer applicable for other property.

The five-year recovery period for qualified leasehold improvement property applied, in general, to buildings located in the New York Liberty Zone if the improvement was placed in service after September 10, 2001, and before January 1, 2007, and no written binding contract for the improvement was in effect before September 11, 2001.

The $8 billion of tax-exempt private activity bond financing is authorized to be issued by the State of New York or any political subdivision thereof after March 9, 2002, and before January 1, 2010.

The $9 billion of additional tax-exempt, advance refunding bonds was available after March 9, 2002, and before January 1, 2006, with respect to certain State or local bonds outstanding on September 11, 2001.

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[5] The Working Families Tax Relief Act of 2004 amended certain of the New York Liberty Zone provisions relating to tax-exempt bonds.

February 4, 2008
hp-804

Proposed Treasury International Programs Budget for FY 2009

The fiscal year 2009 President's budget request for the Treasury Department's International Programs supports key objectives of the President's international assistance agenda, including helping Africa's poorest people, debt relief, results measurement, greater transparency, fighting corruption, and helping countries reduce dependency on foreign aid. The mission of the Treasury International Programs is to promote economic growth and poverty reduction in developing countries through U.S. participation in the Multilateral Development Banks (MDBs), efforts to prevent the buildup of unsustainable debt burdens in poor countries, and technical advice to developing countries on building sound financial sectors and market-based economies.

The Treasury appropriations request for the International Programs for FY 2009 is $2.2 billion, an increase of $913.7 million over the FY 2008 enacted budget and includes $1.7 billion for the MDBs, $141 million for debt restructuring programs and $29 million for technical assistance. Of this, $1.2 billion is the first payment for the new replenishment of International Development Association, the World Bank's fund for the world's poorest countries, and $156 million is to begin replenishing the African Development Fund.

The budget request also includes $400 million as the first installment of a $2 billion international clean technology fund to address the growing problem of accelerating greenhouse gas emissions in developing countries. The fund will help ensure that the developing country demand for energy will be met with clean technologies by supporting the additional cost of clean investments over their dirtier alternatives.

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Office of Performance Budgeting and Strategic Planning

BUDGET DOCUMENTS: FY 2009

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FY 2009 Budget-in-Brief

FY 2009 Budget-in-Brief (1.94 MB)
Last Updated: January 31, 2008

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Last Updated: February 4, 2008

February 4, 2008
2008-2-4-15-2-13-26383

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $72,220 million as of the end of that week, compared to $71,603 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	February 1, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			72,220
(a) Securities	14,775	12,055	26,830
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	14,632	5,911	20,543
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	4,237		
(3) SDRs	9,568		
(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)	72,220
--currencies in SDR basket	72,220
--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.

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

end.

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

February 5, 2008
HP-805

**Opening Statement by Secretary Henry M. Paulson, Jr.
on the President's Fiscal Year 2009 Budget
before the United States Senate Committee on Finance**

Washington, DC--Chairman Baucus, Senator Grassley, Members of the Committee: I am pleased to be here to discuss the President's budget for fiscal year 2009. As Treasury Secretary, my highest priority is a strong U.S. economy that will benefit our workers, our families and our businesses. Through a measured approach that balances our nation's needs with our nation's resources, the President's budget supports that priority.

This is especially important now as, after years of unsustainable home price appreciation, the U.S. economy undergoes a significant and necessary housing correction. This correction, combined with high energy prices and capital market turmoil, caused economic growth to slow rather markedly at the end of 2007.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. I believe our economy will continue to grow, although at a slower pace than we have seen in recent years.

Yet, the risks are clearly to the downside and President Bush knows that economic security is of the utmost importance to the American people. In recent weeks, the potential benefits of quick action to support our economy became clear, and the potential costs of doing nothing too great.

So, we are gratified that Congress is advancing a growth package to support our economy as we weather the housing correction. We believe that a growth package must be enacted quickly; it must be robust, temporary, and broad-based, and it must get money into our economy quickly.

The Senate has begun to consider its version of this bill, and I am hopeful that it will complete consideration soon.

If we keep moving along a fast track, and Congress sends the President a bill that meets our shared principles, rebate payments can start in May and be completed this summer. Together, the payments to individuals and the investment incentives for business will help create more than half a million jobs by the end of this year.

In addition to an economic growth plan to help us weather this housing correction, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. That includes encouraging the HOPE NOW alliance's outreach to struggling homeowners. Congress can do its part by finalizing the FHA modernization and GSE regulatory reform bills and by passing legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs.

We continue to monitor capital markets closely and to advocate strong market discipline and robust risk management. Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying policy issues because it is just as important to get the long-term policy right.

While we are in a difficult transition period as markets reassess and re-price risk, I have great confidence in our markets. They have recovered from similar stressful

periods in the past, and they will again.

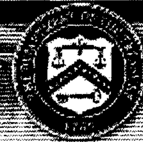
The Administration will also continue to press for long-term economic policies that are in our country's best interest – a pro-growth tax system, entitlement reform and a balanced budget. To that end, the President's budget makes the 2001 and 2003 tax relief permanent, and keeps the federal budget on track for a surplus in 2012.

In the future, as in the past, our long-term economic growth will also be enhanced by supporting international trade, by opening world markets to U.S. goods and services and by keeping our markets open. Congress can help create jobs and economic opportunity by passing the pending Free Trade Agreements with Colombia, Panama and South Korea.

I appreciate the cooperative and bipartisan spirit that has brought the Congress and the Administration together to support our economy, and look forward to that spirit continuing as we work through this period. Thank you.

-30-

PRESS ROOM



February 5, 2008
HP-806

Prepared Statement by Treasury Under Secretary David H. McCormick in in Advance of Meeting of the G-7 Finance Ministers and Central Bank Governors

Washington, DC – Good morning. As you know, the G7 Finance Ministers and Central Bank Governors will meet in Tokyo on February 9th. Their discussions will include current conditions and financial market developments, the international financial institutions, development issues, and climate change. A good part of the G-7 meeting will be devoted to the policy response to recent financial market turmoil.

Secretary Paulson will tell his counterparts that the U.S. economy is undergoing a housing correction, together with high energy prices and capital market turmoil, that is slowing our economic growth, but the U.S. economy is resilient. Our long-term economic fundamentals are sound, but we need to act because the short-term risks are clearly to the downside, and the potential benefits of quick action to support our economy have become clear. The Federal Reserve has already taken action and the President has called for a growth package that is large enough to have a real impact on our economy and that will bolster consumer spending and business investment this year. Secretary Paulson has commended the House for quick bipartisan action on the economic growth package. He is confident Senate leaders understand speed and simplicity are key to enacting this bipartisan agreement, and he is hopeful the Senate will act quickly.

In 2007, global economic growth was quite strong despite market turbulence. The outlook for 2008 still remains solid. Emerging markets, in particular, are expected to post robust economic gains. There are risks, however, and 2008 will pose a more challenging economic environment for policymakers. G-7 Ministers and Central Bank Governors will discuss how best to ensure strong and sustained global economic growth. Given current softness in demand growth in the United States, it especially important that other economies – large and small, advanced and emerging market – take prudent steps to strengthen their economies' demand components. Stronger demand growth abroad would help ensure a global economy that is both robust and better balanced.

Serious turmoil in our financial markets is persisting. Institutions have taken encouraging steps to address the challenge. Since August, financial institutions have disclosed and written off more than $150 billion of assets, and U.S. financial institutions have raised more than $95 billion in new capital. Past episodes of financial turmoil have demonstrated that recognizing losses and restoring capital to the extent necessary are one of the most important steps toward restoring financial normalcy.

Secretary Paulson has great confidence in our markets. They have recovered from similar stressful periods in the past, and they will again. But make no mistake, the current turmoil will continue to challenge policy-makers and we can expect to see more financial market volatility as further disclosures and re-pricing of risk take place.

Looking forward, we face the challenge of addressing regulatory and policy issues raised by this turmoil. We need to be pro-active, but the issues are complex and require careful analysis so that we can effectively target the real problems and not rush to judgment. At this week's meeting, Mario Draghi, head of the Financial

Stability Forum, will brief the ministers and governors on the FSF's interim findings regarding the causes of the turbulence and areas for policy consideration. In October 2007, we asked the FSF to focus its efforts on risk management, the accounting and valuation of structured products, the role and use of credit ratings in structured finance, and basic supervisory principles of prudential oversight of regulated financial entities. We look forward to discussing the FSF findings with our colleagues and to providing guidance to the FSF as it continues its work. In April, the FSF will provide the G-7 with another update on its progress in formulating policy recommendations.

We will also discuss open investment. Cross-border investment and the globalization of capital markets have brought enormous benefits to the world -- broader choices in financial products, greater prosperity, and expanded opportunity. The President's Executive Order in January strengthens the process of the Committee on Foreign Investment in the United States (CFIUS) and will ensure that all appropriate federal agencies continue to be able to rigorously review foreign investments with potential national security implications. America clearly remains open to investment.

Sovereign wealth funds (SWFs) have recently received considerable attention. It is important that we remain vigilant about their implications for protectionist sentiment and the international financial system. It is imperative that we maintain open markets. We are pursuing a reasoned, multilateral approach, including through the IMF's collaboration with SWFs to identify best practices. We are also encouraging the OECD to identify investment policy best practices for countries that receive government-controlled investment, including from SWFs.

Concerning the IMF, the U.S. will emphasize the need for firm implementation of the IMF's new framework for exchange rate surveillance and that fundamental reform of the IMF's governance structure is needed to reflect the rising importance of dynamic emerging markets. Regarding the Fund's medium-term financing picture, we will emphasize that serious consolidation of expenditures, along the lines put forward by MD Strauss-Kahn, must be pursued in tandem with consideration of new sources of income.

The Secretary and his UK and Japanese colleagues will highlight their commitment to the creation of an international clean technology fund. The fund would help finance clean energy projects in the developing world by focusing on financing the gap between traditional and more expensive clean technology. We envision that the fund will leverage bilateral donor resources, multilateral development institution resources, and private resources. In the State of the Union address, President Bush announced he is committing $2 billion over the next three years to the fund. We look forward to working with other countries to help ensure the fund's success.

Thank you for coming this morning, and I look forward to answering your questions.

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February 5, 2008
HP-807

Treasury Action Targets Financial Network of Burmese Tycoon and Regime Henchman Tay Za

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today announced financial sanctions against family members of regime leaders and key additional individuals and businesses that are part of the financial network of Tay Za, a Burmese business tycoon and arms dealer with close ties to Burma's military junta.

"We are tightening financial sanctions against Tay Za, an arms dealer and financial henchman of Burma's repressive junta," said OFAC Director Adam J. Szubin. "The President has made clear that we will continue to take action against the military junta and those who prop it up so long as human rights violations continue and democracy is suppressed."

Today's action targets the Htoo Group of Companies, which carries out key projects on behalf of the Burmese junta, including the purchase of military equipment and aircraft for the Burmese military.

Among the individuals named today is Aung Thet Mann, a director of Tay Za's Htoo Group of Companies. Aung Thet Mann is the son of General Thura Shwe Mann, a senior official in the Burmese government and a member of the State Peace and Development Council. Tay Za has used his business relationship with Aung Thet Mann to win favorable business contracts from the Burmese junta. OFAC also designated Thiha, Tay Za's brother and business partner, and U Kyaw Thein, a director of Tay Za's business ventures in Singapore.

The companies designated include Myanmar Avia Export Company Ltd., a company Tay Za has used to purchase helicopters and aircraft on behalf of the Burmese regime; Ayer Shwe Wah Company Limited, an enterprise for which Aung Thet Mann serves as a director; and Pavo Aircraft Leasing Pte. Ltd. in Singapore.

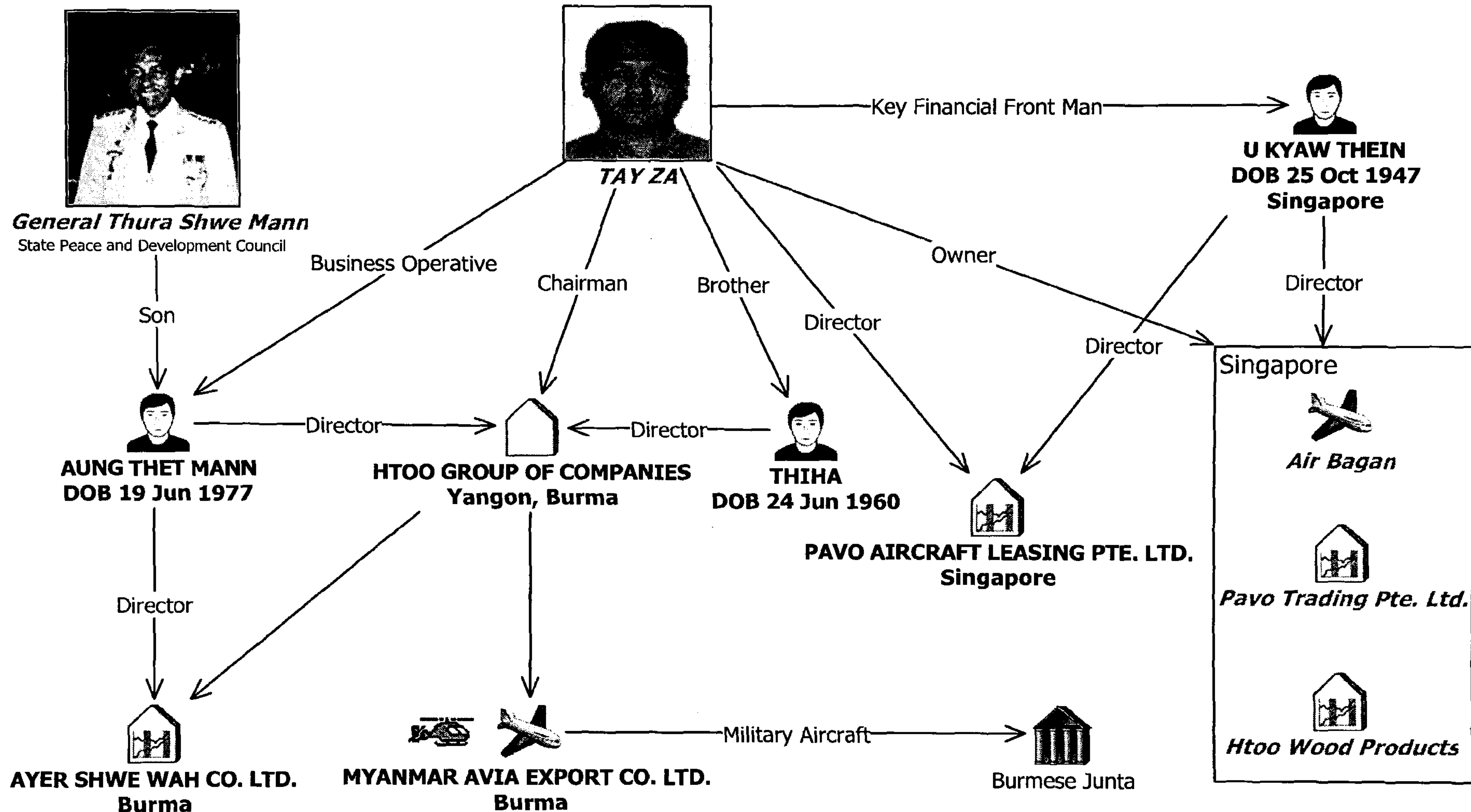
Four spouses of senior Burmese government officials have also been named - Khin Lay Thet, the wife of General Thura Shwe Mann; Myint Myint Ko, the wife of Construction Minister Saw Tun; Tin Lin Myint, the wife of Lieutenant-General Ye Myint; and Myint Myint Soe, the wife of Foreign Affairs Minister Nyan Win.

These actions were taken pursuant to Executive Order 13448, which authorizes the Secretary of the Treasury to designate senior regime officials, human rights violators in Burma, persons engaged in public corruption in Burma, financial and material supporters of the Government of Burma, and spouses and dependent children of previously designated individuals. Tay Za was named along with five of his companies by President George W. Bush in the Annex to E.O. 13448 of October 18, 2007.

Today's designation freezes any assets the designees may have subject to U.S. jurisdiction, and prohibits all financial and commercial transactions by any U.S. person with the designated companies and individuals. It also puts the world on notice about the financial operations of key junta associates and their companies.

REPORTS

- Tay Za Financial Network



Tay Za Financial Network
February 2008
Department of the Treasury
Office of Foreign Assets Control
Specially Designated Nationals
Pursuant to Executive Order 13448
General Thura Shwe Mann
State Peace and Development Council
TAY ZA
Key Financial Front Man
U KYAW THEIN
DOB 25 Oct 1947
Singapore
Son
Business Operative
Chairman
Brother
Director
Owner
Director
Director
Singapore
Air Bagan
AUNG THET MANN
DOB 19 Jun 1977
Director
HTOO GROUP OF COMPANIES
Yangon, Burma
Director
THIHA
DOB 24 Jun 1960
PAVO AIRCRAFT LEASING PTE. LTD.
Singapore
Pavo Trading Pte. Ltd.
Director
Htoo Wood Products
Military Aircraft
AYER SHWE WAH CO. LTD.
Burma
MYANMAR AVIA EXPORT CO. LTD.
Burma
Burmese Junta
Previously designated individuals appear in Red Italics
New SDNs appear in BOLD CAPS

PRESS ROOM

February 5, 2008
HP-808

Under Secretary Robert K. Steel
Remarks on Housing before the American Securitization Forum

Las Vegas - Thank you for that kind introduction. And to all of you gathered here this morning, thank you for welcoming me. It is my pleasure to represent the Treasury Department today at this prestigious conference.

This year's fourth annual American Securitization Forum (ASF) conference has brought together some of the nation's best minds from our housing, finance, legal and accounting communities. Your program is excellent and this is an especially important time for experts like yourselves to come together and discuss these issues.

Since its creation in 2001, ASF has served an important role by building consensus and coordinating advocacy efforts among key participants in the securitization market, including issuers, investors, financial intermediaries, rating agencies, legal and accounting firms, trustees, servicers, and guarantors.

The efforts of this organization and each of the member firms you represent are more important now than ever. We commend ASF for the strong leadership you have recently shown in working to address current challenges in the housing and mortgage markets. The Treasury Department has the benefit of a close working relationship with ASF. Much progress has been made by our collaboration and we look forward to seeing the measurements of your success.

You are fortunate to have the strong leadership of George Miller and Tom Deutsch. Both George and Tom have impressive credentials and spent distinguished careers in the securitization market – George served at the Bond Market Association for 11 years prior to joining ASF and Tom worked for respected firms as a specialist in residential mortgage-backed securitization and credit card securitization. Their leadership was demonstrated in December when the ASF announced very important new industry guidelines creating an efficient process for identifying borrowers who qualify for refinancing or loan modifications. But there is much more work to do. I am pleased to be here today with all of you to discuss what more must be done to build off that progress to help homeowners in distress and allow your industry to thrive.

Let me begin my remarks today by providing a bit of perspective about your industry – the securitization market. Then, I will share my thoughts on current conditions in the housing market and the broader economy, and finally will describe our approach to these challenges, the progress we are making and the necessary next steps. After my remarks, if you have the time, it would be my pleasure to take a few questions.

Innovation and Securitization

As you all know firsthand, our capital markets have changed dramatically in recent years. The pace of financial innovation has gathered momentum, and technology and globalization have rapidly changed the nature of financial markets. It is my view that the rate of change in your industry will continue to accelerate.

Globalization and technological developments have led to innovations in financial products and forever changed our economy and the capital markets. As a result,

some have suggested the world has flattened. At the very least, today's world has unquestionably become more compressed. And I believe this compression will increase with the passage of time.

Having spent 30 years in the financial services industry prior to joining Treasury, I witnessed considerable innovation in capital markets. When I began my career in the securities industry, technology was an infrequently-discussed skill or asset, thought of only as a processing tool. The capital markets were characterized by a nationalistic perspective and innovative vehicles, such as derivatives, were just beginning to appear. Compare that with today when the skilled technologist is a key actor in the industry, markets are global--operating 24/7 without boundaries, and innovation is a skill required for success.

But it was not until the late 1990s that this change in the industry accelerated to a mesmerizing pace. In my final five years in the financial services industry I saw as much innovation as I saw in my first 25 years.

The securitization market is an example of how this incredible pace of innovation has changed financial markets. Secretary Paulson and I have been very clear – we believe that the benefits of securitization are significant. It enables investors to improve their risk management, achieve better risk adjusted returns and access more liquidity.

While being an advocate for the benefits of your industry, it is also important for me to be straight forward. We must be honest and admit some degree of malfeasance. It is clear that in some instances market participants acted inappropriately. Secretary Paulson has indicated that certain adjustments to the mortgage process, such as licensing standards for mortgage originators, would help in weeding out the bad actors. Common sense licensing standards would take into account prior fraudulent or criminal activity, and should require initial and ongoing education.

Recent market fluctuation has also caused some to question more broadly the effectiveness of certain characteristics of the mortgage market process. This questioning, which is fair and appropriate, has specifically targeted rating agencies, securitization and mortgage origination.

Policymakers and market participants both must commit to a continual assessment of financial innovation and its implications. Secretary Paulson has taken responsibility, by way of the President's Working Group, to evaluate these issues.

The President's Working Group on Financial Markets was formed by President Reagan to study and issue recommendations regarding the market events of October 19, 1987. Since then, the non-partisan Working Group - chaired by the Secretary of the Treasury and composed of the chairmen of three independent financial regulators (the Federal Reserve Board, the Securities and Exchange Commission and the Commodity Futures Trading Commission) - has continued to convene under an overarching mission of maintaining investor confidence and enhancing the integrity, efficiency, orderliness and competitiveness of U.S. financial markets.

Secretary Paulson is leading the President's Working Group to evaluate broad, long-term lessons-learned from current challenges, and where appropriate make recommendations. Securitization can remain a strong market in the future, but market participants must accept some degree of responsibility and commit to lessons-learned.

Housing Market Challenges

As I have just described, challenges in the markets are having significant consequences. What began as a credit issue last summer, raised questions about market liquidity in the autumn, and today is causing uncertainty about the economy.

The flow of liquidity that fueled a boom in borrowing and leverage across asset

classes – from mortgages to leveraged buyouts – has now been reduced. Short-term funding markets were stressed and inter-bank funding spreads rose to unprecedented levels. Mortgage origination and other asset securitization dropped markedly, adding to the challenges in the housing sector. Given the interconnectedness of our capital markets, other stresses emerged as financial institutions grappled with valuing assets and balance sheets came under pressure.

Of course, housing has been at the center of all these challenges. Housing corrections take time and we are currently experiencing a period of adjustment in the housing sector of our economy. After years of unsustainable home price appreciation and relaxed lending practices, a housing correction was inevitable and necessary.

Our economy is resilient and fundamentally strong, but the housing correction, credit market turmoil, and high oil prices are weighing on growth this year and short-term risks are to the downside. We at Treasury expect that our economy will continue to grow over the coming year, but at a slower rate than we have enjoyed for the past few years.

However, there is the risk of a downturn. And to address this short-term challenge, President Bush announced a bipartisan agreement with House of Representatives on a growth package to bolster the economy this year. The proposal will provide about $150 billion of tax relief for the economy, leading to the creation of over half a million additional jobs by the end of this year. The Administration and the American people await action in the Senate to produce a targeted package to send to the President. By passing this economic growth agreement quickly, we can protect the strength of our economy as we weather the housing downturn and other challenges.

The housing downturn, of course, is about more than just economic statistics – it is also about the firsthand strain that families and homeowners will experience. Too many American homeowners face the frightening prospect of losing their home in foreclosure – and a significant number of other families already have. Foreclosures also impose negative externalities on neighboring homes and communities. Many homeowners who are paying their mortgages on time face lower property values due to foreclosures in their neighborhood. This places hardships on neighboring homes and undermines the financial stability of broader communities and the families who live there.

The latest available data (from the third quarter of last year) indicate that 2007 was on track for a foreclosure starts rate of 2.7 percent. To give that number a bit of perspective we should recognize that many homes end up in foreclosure every year, even when housing markets are strong. Between 2001 and 2005, for example, the U.S. annual rate of foreclosure starts averaged approximately 1.7 percent, meaning more than 650,000 homeowners began the foreclosure process each year. This baseline rate of foreclosure can result from events such as job loss, credit problems, changes in family circumstances, or other sources of economic instability.

Recently, some have made comparisons between the rate of foreclosure starts and the rate of modifications. There is no question we want and expect the rate of modifications to increase. However, we must not ignore refinancings. Every time a homeowner refinances into a long-term sustainable mortgage that is a win for both the homeowner and the original investor.

We expect the foreclosure rate to remain elevated this year and next. A rising foreclosure rate during a period of housing price depreciation is not surprising. Yet, largely because of relaxed underwriting standards in recent years – particularly in the subprime market – and because of resetting mortgages, the number of homeowners facing hardship will be higher than during other recent housing downturns.

In total, approximately 1.8 million subprime mortgages are expected to reset over the next two years, but not all will end in foreclosure. Many homeowners will be

able to afford their new payments without trouble or will be able to qualify for refinanced, fixed-rate mortgages on their own. In fact, of the 2/28 subprime ARMs originated in 2005, 88 percent had not defaulted as of late last year. Others, however, have stretched far beyond their means, and unfortunately, foreclosure may be unavoidable. In fact, many loans enter into foreclosure before ever reaching the reset date. A third group of homeowners facing resets fall somewhere in the middle. The challenge is to identify the homeowners in this middle group, who with a focused and timely response can stay in their homes.

The Policy Response

After working closely with ASF and other members of the industry, Secretary Paulson has determined that the best response is based upon a three point plan: (1) to better identify, reach and connect with servicers and counselors at-risk homeowners who can be helped, (2) to assist in developing additional products for homeowners, and (3) to increase the speed and efficiency of moving these at-risk borrowers into affordable solutions.

Whenever facing a challenging public policy issue, such as this one, the first step is full understanding. While we are continuing to learn, our response to date represents months of listening to leading academics, servicers, mortgage counselors, lenders, homeowners, consumer advocates and investors to understand the causes of foreclosure and the best ways to help people keep their homes.

On August 31, President Bush announced an aggressive, comprehensive plan to help at-risk homeowners remain in their primary residences. The President charged Secretaries Jackson and Paulson to lead this effort.

As the Treasury Department and the Department of Housing and Urban Development (HUD) met with a variety of mortgage market participants and non-profit credit counselors in the late summer and early fall of 2007, it became clear that while many market participants were working diligently on their own trying to reach and help homeowners, it was inadequate given the scale and pace of pending resets.

On October 10, HOPE NOW was formed as an alliance among counselors, servicers, investors, and other mortgage market participants to maximize outreach efforts to at-risk homeowners and help them remain in their homes. The Alliance grew and today servicers participating in HOPE NOW comprise over 94 percent of the subprime mortgage loan market. Since its formation, ASF has been a true leader in HOPE NOW, ensuring that securitization market participants - especially investors - were helping craft solutions that would help homeowners without undermining the flow of capital.

On December 6, President Bush announced a new private-sector framework to streamline the process for modifying and refinancing subprime mortgages for eligible homeowners. These new industry guidelines, issued by your organization, created an efficient process for identifying borrowers who qualify for refinancing or for loan modifications. This, in turn, would free up resources and allow mortgage servicers to focus on those borrowers who require more in-depth analysis. It is now up to the industry, including the people in this room today, to help put this plan into action.

Early Progress: August 30th vs. Today

Early results of these efforts are coming in and we are encouraged by the progress being made.

On August 30, before the President's plan was in place, there was no widely-promoted national contact point for foreclosure prevention counseling. Today, HOPE NOW has adopted the Hope hotline (888-995-HOPE) as a centralized source of foreclosure counseling. HOPE NOW has expanded the capacity of the

HOPE hotline so that it can sustain the increased call volume from nationwide outreach efforts. Since August, they have added hundreds of trained counselors who are ready and able to help borrowers who reach out through the hotline.

In August, the hotline was receiving an average of 625 phone calls a day. Today, the HOPE hotline is receiving 4,000 new phone calls a day, a five fold increase.

In August, funding for hotline counselors came from government and foundation sources only – the traditional sources of counselor support. Today, servicers and investors now reimburse HOPE hotline counselors $100 for every counseling session completed. This is an important step toward maintaining a sustainable funding model.

In August, there was no coordinated outreach effort to contact at-risk borrowers. Today, HOPE NOW members are reaching out to all at-risk borrowers and offering help through both mortgage servicers and non-profit credit counselors. A direct mail campaign began in November to contact all borrowers who are 60 days or more delinquent on their loans with no prior servicer contact. This letter informs them that help is available.

In the first two months, HOPE NOW and its members have mailed 483,000 letters to delinquent homeowners. After receiving these letters an estimated 77,000 borrowers called for help – again none of these borrowers had previously spoken to their servicer or responded to attempts to contact them.

In August, before the President's plan was in place, only some servicers were contacting borrowers early to alert them of a reset in their interest rates. Today, all HOPE NOW servicers are contacting all subprime mortgage borrowers at least 120 days prior to their mortgage reset. This will allow for early identification of borrowers who will have challenges – greatly increasing their options for help.

In August, before the President's plan was in place, the Federal Housing Administration (FHA) had limited flexibility to help families who had already run into trouble stay in their homes. Today, a new program - FHASecure – is in place offering refinancing options to homeowners who were making payments on time prior to an interest rate reset but have missed payments because of the reset. Since August, the FHA has helped over 75,000 families and it is estimated that about 100,000 more applications are in the pipeline.

In August, state housing agencies were authorized to issue tax-exempt bonds to fund housing purchases for only first-time homeowners. Today, the Administration has proposed not only to expand significantly the cap on bond issuance by $15 billion over three years, but also to allow these tax-exempt bonds to fund refinancings of existing homeowners.

In August, before the President's plan was in place, when servicers helped borrowers by writing down loan principal, homeowners owed taxes on that write-down. Today, after the Congress passed the Administration's mortgage forgiveness proposal, homeowners will avoid roughly $200 million a year in taxes that would have otherwise been due from principal forgiveness for the next three years.

In August, servicers seeking to address the upcoming wave of hybrid adjustable-rate mortgage resets and considering possible loan modifications were forced to deal with borrowers in a time-consuming, costly, case-by-case process. Today, as HOPE NOW servicers have begun to adopt the ASF's fast-track modification framework, the industry is able to act quickly in modifying the loans of those borrowers who faithfully have paid their mortgage but will not be able to afford the rate reset or qualify for refinancing. In doing so, not only are servicers now able to help many more borrowers much more quickly, but also are able to maximize cash flows for investors. This also frees up valuable time and resources for servicers to help other borrowers on a case-by-case basis.

As we have already noted, President Bush and Secretary Paulson are anxiously

awaiting results of the ASF fast-track framework for subprime loan modifications. Even before the framework was announced, the rate of modifications began to climb. In the fourth quarter, after the launch of HOPE NOW, the rate of subprime loan modifications tripled from the rate in the third quarter. We expect your industry to hold to its commitment to help more homeowners, faster, by using the ASF framework, and we look forward to seeing the measurements of your success.

Conclusion

Despite many signs of economic strength, high energy prices, contracting credit conditions and the housing downturn pose headwinds to the economy. We accept the reality that a housing correction was in order; however our public policy goal is to limit the negative impact of that correction.

Meeting this goal will require continued help from your industry. By working to keep at-risk borrowers in their homes, we can help minimize the negative externalities caused by foreclosures. When a person is delinquent on his or her credit card payment that only affects the borrower and the lender, but when one loses a home to foreclosure, it impacts neighborhoods, communities and eventually the broader economy.

Our policy response is focused on avoiding preventable foreclosures. Among the tools we have enlisted are some preexisting programs, such as the Federal Housing Administration. But we are also looking to new, innovative tools, such as the ASF framework.

Early data indicate that progress is being made, but your industry must move even faster. Each additional day it takes to fully implement these tools, including the ASF framework, we are missing homeowners who could have been helped. We are monitoring servicers closely and expect all to report results of their efforts into HOPE NOW on a monthly basis.

Let me again express my appreciation for the strong leadership ASF has taken in working with their members and with the public sector to develop tools to help mitigate current challenges. These issues are complex and we will continue to learn as we move forward. We will look for additional tools to help prevent avoidable foreclosures.

Thank you. I will now take a few questions.

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PRESS ROOM

February 6, 2008
hp-809

Opening Statement by Secretary Henry M. Paulson, Jr.
On the President's Fiscal Year 2009 Budget
Before United States Senate Budget Committee

Washington, DC-- Chairman Conrad, Senator Gregg, Members of the Committee: I am pleased to be here to discuss the President's budget for fiscal year 2009. As Treasury Secretary, my highest priority is a strong U.S. economy that will benefit our workers, our families and our businesses. Through a measured approach that balances our nation's needs with our nation's resources, the President's budget supports that priority.

This is especially important now as, after years of unsustainable home price appreciation, the U.S. economy undergoes a significant and necessary housing correction. This correction, combined with high energy prices and capital market turmoil, caused economic growth to slow rather markedly at the end of 2007.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. I believe our economy will continue to grow, although at a slower pace than we have seen in recent years.

Yet, the risks are clearly to the downside and President Bush knows that economic security is of the utmost importance to the American people. In recent weeks, the potential benefits of quick action to support our economy became clear, and the potential costs of doing nothing too great.

So, we are gratified that Congress is advancing a growth package to support our economy as we weather the housing correction. We believe that a growth package must be enacted quickly; it must be robust, temporary, and broad-based, and it must get money into our economy quickly.

The Senate has begun to consider its version of this bill, and I am hopeful that it will complete consideration soon.

If we keep moving along a fast track, and Congress sends the President a bill that meets our shared principles, rebate payments can start in May and be completed this summer. Together, the payments to individuals and the investment incentives for business will help create more than half a million jobs by the end of this year.

In addition to an economic growth plan to help us weather this housing correction, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. That includes encouraging the HOPE NOW alliance's outreach to struggling homeowners. Congress can do its part by finalizing the FHA modernization and GSE regulatory reform bills and by passing legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs.

We continue to monitor capital markets closely and to advocate strong market discipline and robust risk management. Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying policy issues because it is just as important to get the long-term policy right.

While we are in a difficult transition period as markets reassess and re-price risk, I have great confidence in our markets. They have recovered from similar stressful

periods in the past, and they will again.

The Administration will also continue to press for long-term economic policies that are in our country's best interest – a pro-growth tax system, entitlement reform and a balanced budget. To that end, the President's budget makes the 2001 and 2003 tax relief permanent, and keeps the federal budget on track for a surplus in 2012.

In the future, as in the past, our long-term economic growth will also be enhanced by supporting international trade, by opening world markets to U.S. goods and services and by keeping our markets open. Congress can help create jobs and economic opportunity by passing the pending Free Trade Agreements with Colombia, Panama and South Korea.

I appreciate the cooperative and bipartisan spirit that has brought the Congress and the Administration together to support our economy, and look forward to that spirit continuing as we work through this period. Thank you.

-30-

February 7, 2008
HP-810

Under Secretary Steel Remarks on U.S. Financial Regulation

New York City - Thank you for your kind introduction. It is a privilege to be here among so many distinguished speakers and guests.

I have a great deal of respect for the New York Society of Securities Analysts. For over 70 years your organization has been a key player in financial markets, affecting trends and helping shape the investment industry. There is no doubt that securities analysts play a vital role in our capital markets, and the innovative and experienced leadership of NYSSA members is an important reason why.

The NYSSA has also served an important role in educating and informing investment professionals through countless seminars and forums such as this. Given current market conditions, this educational role is more important now than ever. Your organization can play crucial role in key areas like investor awareness of risk.

Let me congratulate you on organizing an especially timely conference. Your program today is excellent and you are focused on the right set of issues. Topics like hedge funds, GSEs and rating agencies are topics we think about every day at the Treasury Department. You have an exciting day in front of you.

My remarks this morning will focus on Treasury's work on a new regulatory blueprint for U.S. financial services regulation. I will begin by giving a bit of perspective about financial regulation and U.S. competitiveness in the global capital markets. I will then discuss challenges with our current regulatory system, and what principles we at the Treasury believe are essential to include in a modernized regulatory framework. I will conclude with some brief comments on current conditions in the markets and the broader economy.

Capital Markets Competitiveness

Maintaining and enhancing the competitiveness of U.S. capital markets has been one of Secretary Paulson's primary goals since arriving at the Treasury.

Our markets are the strongest in the world, but maintaining this leadership requires having the confidence to continually self-assess our position and when appropriate, make changes or adjustments. 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.

Secretary Paulson kicked off these efforts in the fall of 2006 in here New York with a speech which served to frame the issues. After that address, an enriching period of public discourse followed, highlighted by the release of four separate and independent reports: one from Mayor Bloomberg and Senator Schumer, one from the U.S. Chamber of Commerce, one from the Financial Services Roundtable and one from a highly-regarded study group called the Committee on Capital Markets Competitiveness.

Last spring, Secretary Paulson hosted a conference on capital markets competitiveness at Georgetown University. 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.

Following that conference, Secretary Paulson announced a series of initiatives aimed at maintaining the competitiveness of U.S. markets. In June, Secretary Paulson announced that Treasury would publish a "regulatory blueprint study," that will consider ways to rationalize the current regulatory structure in an effort to maintain a dynamic U.S. market for financial services while improving oversight.

Limitations of our Current Structure

If we were starting from scratch, no one would choose to design today's system. Nor is it a system we would design in order to ensure that the United States remains the global leader in financial services.

Our current regulatory framework has been largely knit together over the last 75 years – with act on top of act, initiative on top of initiative – each a reaction to various crises or innovations in the financial services industry. Today we have a series of individual regulations, each designed in response to specific circumstances and lacking an overarching set of guiding principles. Our system has multiple federal and state regulators with unclear and sometimes overlapping boundaries.

Let me provide some more specific examples of the limitations of our current regulatory system, and how these affect depository institutions, securities and futures markets and the insurance industry.

Within our existing regulatory structure, the regulation of depository institutions may choose from one of three federal charters or a state charter. For institutions that are subject to federal oversight, there are five distinct regulators, which have primary regulatory responsibility based on various characteristics of the institution and its membership within the Federal Reserve System. Sound oversight and consumer protections should not be a matter of choice.

Given multiple regulators with overlapping responsibility in many cases, it is difficult to ensure that standards are consistently applied across all types of depository institutions. This system also exposes us to the potential for "regulatory arbitrage." If a company perceives a discrepancy between two jurisdictions, it might go 'regulator shopping' to find the friendliest regime in which to do business. Furthermore, no single regulator is able to take an overarching perspective and observe the broader market. This limits regulators' ability to detect trends or early warning signs across financial markets. The flip side of this argument is that multiple charters encourage regulatory competition, which can lead to more effective regulation.

Securities and futures markets have a different structure, one where regulation is determined on a product basis. Here jurisdiction between the Securities and Exchange Commission and the Commodity Futures Trading Commission over products is determined by whether a product falls within the definition of a "security" under the federal securities laws or a "future" under futures law.

But markets do not respect the historic distinctions between securities and futures. In recent years we have seen not only substantial product convergence within these two markets, but also convergence among market participants – investors, intermediaries and trading platforms.

Finally, within the insurance industry we encounter yet a third regulatory framework, one that is managed almost exclusively by the states. Within this market, insurers must be licensed with the states – there is no federal charter available. Although the state commissioners created the National Association of Insurance Commissioners more than 135 years ago to assist with the monitoring, administration and coordination of insurance regulation, actual regulatory authority is still vested in the individual states.

As a result, both the compliance process and the approval of structures or pricing within the insurance industry are inconsistent. Furthermore, with a network of over fifty separate regulators there is no single regulator with a comprehensive view of the insurance market. There is also no single national regulator to address international insurance issues.

Recent challenges within the mortgage market highlight the risks of this regulatory patchwork and the vital need for a modernized regulatory structure. Yet using the mortgage market as an example, the overlapping layers of regulation for national banks, savings association, thrift holding companies, bank holding companies, state-chartered mortgage finance companies and other institutions highlight the challenges that regulators face not only as they respond to a crisis, but also in their everyday work. However, let me be clear: our regulatory framework did not cause these market disruptions – they were created by other forces, as I will discuss in bit.

Goals of Regulation

When undertaking the task of writing a new regulatory blueprint, it is important to first articulate what the philosophy and goals of financial regulation should be – who should be protected, which participants should be regulated, and how should that regulation be developed and applied.

As I have discussed before, 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 ideas into new businesses or expand existing businesses, thereby generating jobs and contributing to a growing economy.

Considering the goals of regulation in this context, we are reminded that 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 a safe, open, and transparent flow of information.

An effective bridge must also be built on a sound, predictable foundation, and it must have strong pillars of investor and consumer protection, market integrity and risk mitigation.

We must recognize that not all participants travel at the same speed on this bridge and so a continuum of protection in this open-market environment is appropriate. At one end, retail consumers might need government-sponsored insurance to protect their savings or the confidence to know that they are not disadvantaged when dealing with a more experienced market participant. At the other end of this continuum we find large, sophisticated investors who understand market risks and do not need the same regulatory protections as they interact with peer organizations. Treasury is creating a blueprint with this understanding, to give the consumers and institutions on differing sides of the continuum the appropriate protections.

As we in the Treasury Department develop a blueprint for a more optimal regulatory structure, we must balance policies that allow for efficient movement of capital while also promoting a safe and stable environment. A regulatory structure that meets all of these conditions will invite capital by inspiring confidence among market participants.

Toward a Modernized Regulatory Approach

We need a new, modernized approach to regulation – one that is risk-based, globally oriented and flexible in scope.

As we progress with our analysis, we are guided and comforted by the fact that other countries have conducted similar exercises as how to best regulate financial market activity in the modern era.

For example, as you well know, the United Kingdom closely analyzed its regulatory structure just over a decade ago and made fundamental changes such as separating bank supervision and monetary policy and consolidating financial services supervision from nine regulatory bodies to a single regulator. The tripartite, comprised of the Financial Services Authority, the Bank of England and Her Majesty's Treasury, operates under a memorandum of understanding which delineates areas of responsibility, supports the exchange of information, and identifies roles in a financial or operational crisis.

Issues related to the collapse of Northern Rock have raised some concerns about how the revamped regulatory structure in United Kingdom performed in a crisis. In particular, issues associated with information and coordination agreements between government agencies, as well as the role of the Bank of England in bank supervision will likely be re-evaluated. Also fundamental issues, such as the nature of the deposit insurance regime in the United Kingdom have also been noted as contributing to the recent problems with Northern Rock.

There are other macro-level regulatory structures from which we can learn, such as the "Twin Peaks" model adopted in Australia and the Netherlands. In general the "Twin Peaks" focuses on regulation by objective, which results in the establishment of two distinct regulatory bodies – one responsible for prudential financial regulation of entities where such regulation is necessary, and one responsible for conduct of business regulation related to financial products being offered to consumers and investors.

Many in the United States view these alternative approaches around the world as opportunities to learn about how our regulatory system might be enhanced. Some of the overarching reasons for looking at alternative structures is a better balance between principles and rules, and a better analysis of benefits and burdens of regulation. Of course, an optimal construct should balance both rules and principles.

We believe that regulation should be guided by principles at an overarching level. But in many cases some type of rules-based regulation is necessary. In particular, regulation at the retail level will require some focus on rules, particularly to protect less sophisticated market participants. Too often, however, discussions about ideal regulatory philosophy and structure have been reduced to a black and white debate of rules versus principles. This oversimplification undermines the complexity of these issues, and is not constructive.

Similarly, calls for a cost-benefit analysis are easy to articulate but difficult to implement. Of course, we reject calling for regulation just for regulation's sake, but costs are often easy to estimate, while benefits are less so. Many, I fear, use cost-benefit analysis as a blunt proxy to mask a general reservation about new regulations. While neither view is completely correct, a better, more disciplined view of evaluating the costs and benefits of regulation is important.

The issues surrounding rules versus principles or cost-benefit analysis are not unique to a particular regulatory structure. In addition to considering these types of overarching regulatory issues, our focus in developing the regulatory blueprint is to look broadly at long-term issues associated with the underlying structure of our regulatory system.

Regulatory Blueprint

To begin mapping out a plan for modernizing our regulatory structure, the Treasury Department has been working to examine the issues that I have discussed with you today in order to propose a more efficient structure while improving regulatory oversight.

This work has not proceeded in a vacuum; instead public input has been very important to our work. Following an October request for public comment in the Federal Register, the Treasury Department received hundreds of thoughtful and enlightening comments covering a wide range of topics associated with the

regulation of securities and futures firms, depository instiutions and insurance firms.

While our work is still ongoing and no final decisions have been made, we expect to release our regulatory blueprint within the first quarter of this year. One aspect of the blueprint is to propose some broad ideas for an optimal regulatory structure to match the ever changing nature of the financial services industry. You should not be surprised to hear that this optimal structure will be different from our current structure. This will be a newly-designed model for the U.S financial services industry that should meet the needs of today and be flexible enough to address issues that might come tomorrow. In developing this model, we are focusing on the key aspects of regulating financial institutions: prudential regulation for safety and soundness; consumer and investor protection regulations; and overall market stability regulation.

Of course, we recognize that there are many difficulties in obtaining wholesale changes to the current regulatory structure. There are many political and parochial concerns and some market participants are hesitant and generally opposed to change. We recognize this fact. Therefore, our report will also recommend some less conceptual ideas that we believe will serve as intermediate steps to put us on the path towards the optimal structure of financial services regulation.

The success of this initiative will not and should not be tied to just short-term accomplishments. Some of the recommendations will be immediately relevant to legislative and regulatory policy issues. On these matters, our hope is that the Treasury Department's report will spur near-term tangible results. Implementation of other, longer-term recommendations will be subject to outside factors but will be ready should support for these reforms develop. Finally, our hope is that some of the recommendations will shape future debates regarding regulatory structure issues.

Market Conditions

In conclusion, let me comment briefly on current conditions in the markets since that is something on all of our minds these days.

It is clear that challenges in the markets are having significant consequences. What began as a credit issue last summer, raised questions about market liquidity in the autumn, and today is causing uncertainty about the economy.

The flow of liquidity that fueled a boom in borrowing and leverage across asset classes – from mortgages to leveraged buyouts – has now been reduced. Short-term funding markets were stressed and inter-bank funding spreads rose to unprecedented levels. Mortgage origination and other asset securitization dropped markedly, adding to the challenges in the housing sector. Given the interconnectedness of our capital markets, other stresses emerged as financial institutions grappled with valuing assets and balance sheets came under pressure.

Of course, housing has been at the center of all these challenges. Housing corrections take time and we are currently experiencing a period of adjustment in the housing sector of our economy. After years of unsustainable home price appreciation and relaxed lending practices, a housing correction was inevitable and necessary.

Our economy is resilient and fundamentally strong, but the housing correction, credit market turmoil, and high oil prices are weighing on growth this year and short-term risks are to the downside. We at Treasury expect that our economy will continue to grow over the coming year, but at a slower rate than we have enjoyed for the past few years.

However, there is the risk of a downturn. And to address this short-term challenge, President Bush announced a bipartisan agreement with House of Representatives on a growth package to bolster the economy this year. The proposal will provide about $150 billion of tax relief for the economy, leading to the creation of over half a

million additional jobs by the end of this year. The Administration and the American people await action in the Senate to produce a targeted package to send to the President. By passing this economic growth agreement quickly, we can protect the strength of our economy as we weather the housing downturn and other challenges.

Conclusion

Thank you for the opportunity to discuss our regulatory blueprint today. Opportunities to share our perspective with important market participants like you are always appreciated. We will look forward to keeping you informed as we near final recommendations.

If you have the time, it would be my pleasure to take a few questions.

February 7, 2008
HP-811

Visit By President Zelaya of Honduras

Washington, DC--Secretary Paulson will welcome President Manuel Zelaya of Honduras to the U.S. Treasury Department on Thursday, February 7, 2008. They will discuss Honduras' progress in the implementation of the country's development strategy and relationships with international financial institutions, as well as the impact of CAFTA-DR.

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PRESS ROOM

February 7, 2008
HP-812

**Statement by Secretary Henry M. Paulson, Jr.
on the President's Fiscal Year 2009 Budget
before the House Committee on Ways and Means**

Washington, DC-- Chairman Rangel, Congressman McCrery, Members of the Committee: I am pleased to be here to discuss the President's budget for fiscal year 2009. As Treasury Secretary, my highest priority is a strong U.S. economy that will benefit our workers, our families and our businesses. Through a measured approach that balances our nation's needs with our nation's resources, the President's budget supports that priority.

This is especially important now as, after years of unsustainable home price appreciation, the U.S. economy undergoes a significant and necessary housing correction. This correction, combined with high energy prices and capital market turmoil, caused economic growth to slow rather markedly at the end of 2007.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. I believe our economy will continue to grow, although at a slower pace than we have seen in recent years.

Yet, the risks are clearly to the downside and President Bush knows that economic security is of the utmost importance to the American people. In recent weeks, the potential benefits of quick action to support our economy became clear, and the potential costs of doing nothing too great.

So, we are gratified that Congress is advancing a growth package to support our economy as we weather the housing correction. We believe that a growth package must be enacted quickly; it must be robust, temporary, and broad-based, and it must get money into our economy quickly.

The House has passed legislation that meets these principles.

If we keep moving along a fast track, and Congress sends the President a bill that meets our shared principles, rebate payments can start in May and be completed this summer. Together, the payments to individuals and the investment incentives for business will help create more than half a million jobs by the end of this year.

In addition to an economic growth plan to help us weather this housing correction, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. That includes encouraging the HOPE NOW alliance's outreach to struggling homeowners. Congress can do its part by finalizing the FHA modernization and GSE regulatory reform bills and by passing legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs.

We continue to monitor capital markets closely and to advocate strong market discipline and robust risk management. Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying policy issues because it is just as important to get the long-term policy right.

While we are in a difficult transition period as markets reassess and re-price risk, I have great confidence in our markets. They have recovered from similar stressful periods in the past, and they will again.

The Administration will also continue to press for long-term economic policies that are in our country's best interest – a pro-growth tax system, entitlement reform and a balanced budget. To that end, the President's budget makes the 2001 and 2003 tax relief permanent, and keeps the federal budget on track for a surplus in 2012.

In the future, as in the past, our long-term economic growth will also be enhanced by supporting international trade, by opening world markets to U.S. goods and services and by keeping our markets open. Congress can help create jobs and economic opportunity by passing the pending Free Trade Agreements with Colombia, Panama and South Korea.

I appreciate the cooperative and bipartisan spirit that has brought the Congress and the Administration together to support our economy, and look forward to that spirit continuing as we work through this period. Thank you.

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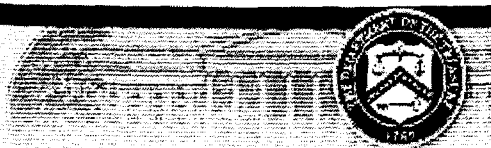
PRESS ROOM



February 7, 2008
HP-813

Assistant Secretary David G. Nason
Testimony on Reforming GSE Regulation
Before the Senate Committee on Banking, Housing and Urban Affairs

Washington - Chairman Dodd, Ranking Member Shelby, and Members of the Committee, thank you for inviting me to appear before you today. I very much appreciate the opportunity to present the Treasury Department's perspective on regulatory reform for our nation's housing government sponsored enterprises (GSEs): Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks).

Overview of Housing and Mortgage Market Activity

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. Yet, economic growth has slowed and the risks are clearly to the downside given current conditions in the housing, credit, and energy markets. Issues related to housing and credit markets bring us directly to the topic of today's hearing.

This Committee is very well aware that the housing and mortgage markets are going through a transition period that is exerting stress on homeowners. The current housing downturn comes after eight years of exceptional housing price appreciation and the housing market is likely to remain weak well into this year and potentially beyond 2008.

A vitally important aspect of working through the current transition in the housing market is ensuring that mortgage credit remains available for both home purchase and refinance transactions. On August 31, 2007, President Bush announced a series of efforts to help mitigate challenges in the housing market. Last week, Under Secretary Steel appeared before this Committee to outline our progress to date and to describe our ongoing efforts to help reduce the number of preventable foreclosures. We appreciate the work and cooperation of the Congress in this area and ask that the Congress pass Federal Housing Administration (FHA) modernization as soon as possible in order to increase opportunities for homeowners to refinance into more sustainable mortgage products.

The Administration also recognizes that the GSEs have played an important role in making credit available to current and prospective homeowners. Since year-end 2006, Fannie Mae and Freddie Mac have increased their outstanding mortgage-backed securities (MBS) by over $600 billion. In addition, outstanding advances of the FHLBank System increased by $184 billion in the third quarter alone, providing additional liquidity and a source of funding to support the lending activities of insured depository institutions and other FHLBank members.

The Time for Regulatory Reform of the Housing GSEs is Now

A key element of the housing GSEs' public purpose is to enhance liquidity in the mortgage market. If we expect the housing GSEs to perform that mission, we must demand that they have a regulatory structure that is appropriate for the importance of the mission and the risk that it entails. It is the Treasury Department's view, and it appears to be generally recognized, that the housing GSEs' regulators have neither the tools, nor the resources, to deal effectively with the current size, complexity, and overall importance of these enterprises.

We acknowledge and commend the housing GSEs for adding some degree of stability to the current mortgage market. Of course, they have had their own problems in recent years and are not immune to problems that are currently plaguing the mortgage market.

The well documented accounting and corporate governance problems that emerged first at Freddie Mac in 2003 then later at Fannie Mae in 2004 raised fundamental questions about the risk management practices at both companies. In response to these issues, the Office of Federal Housing Enterprise Oversight (OFHEO) has entered into supervisory consent agreements with the boards of directors at Fannie Mae and Freddie Mac. These supervisory agreements, which were consummated in December 2003 for Freddie Mac and in September 2004 for Fannie Mae, require the enterprises among other things to improve their internal controls and risk-management operations. While Fannie Mae and Freddie Mac have made substantial progress in addressing these issues, as of December 27, 2007, OFHEO still had supervisory concerns about the internal control and operational weaknesses at both enterprises.

In addition, the FHLBanks were not immune to similar risk management issues, as the regulatory actions associated with problems at the FHLBank of Chicago and the FHLBank of Seattle illustrated. The severity of the problems in the case of the FHLBank of Chicago is evident as discussions are underway regarding a potential merger with the FHLBank of Dallas. This would be the first merger within the FHLBank System since 1946, when the FHLBanks of Los Angeles and Portland were merged to create the FHLBank of San Francisco.

More recently, much like other financial institutions involved in mortgage finance, Fannie Mae and Freddie Mac have experienced various levels of stress in the current mortgage environment. For example, in the third quarter of 2007, Fannie Mae and Freddie Mac reported losses of $1.5 billion and $2.1 billion, respectively. Furthermore, in the fourth quarter of 2007, Fannie Mae and Freddie Mac raised preferred equity capital in the amount of $7.9 and $6.5 billion, respectively. These recent increases in equity capital help to keep the enterprises above their regulatory capital minimums in what has been, and what many expect will continue to be, a difficult operating environment in the near-term for entities in the mortgage market.

All of these factors point to a clear and urgent need for completing housing GSE regulatory reform, and we thank this Committee for taking this important step toward this goal. The Treasury Department's core objectives for housing GSE regulatory reform are: (1) the need for a sound and resilient financial system, and (2) increased homeownership opportunities for less-advantaged Americans. It is paramount that the housing GSEs properly manage and supervise the risks they undertake and that a strong regulator oversee their operations. Otherwise their solvency could be threatened and this could have a negative impact on the stability of other financial institutions and the overall strength of our economy.

Necessary Powers for Financial Regulation

Throughout the debate on housing GSE regulatory reform, the Treasury Department's focus has been on ensuring that the new regulator has all of the powers, authority, and stature required to perform its mandated function. In this regard, the new regulator's powers should be comparable in scope and force to those of our nation's other financial institution regulators.

In terms of comparable powers, we must ensure that the new housing GSE regulatory agency is not encumbered by the current restrictions that are placed on OFHEO. Many of the following key elements of housing GSE regulatory reform have been debated in recent years:

- *Capital Requirements* – Under current law, the minimum capital requirements for the housing GSEs are fixed in statute, and the risk-based capital requirement for Fannie Mae and Freddie Mac is based on a highly-prescribed stress test that is set forth in statute. These limitations are inconsistent with the ability of other financial regulators to set both minimum

and risk-based capital requirements. The new housing GSE regulatory agency must have the authority to set both minimum and risk-based capital requirements.

- *Receivership/Conservatorship* – Under current law, OFHEO has the authority to place Fannie Mae or Freddie Mac into conservatorship but not into receivership. Should such circumstances arise, the new housing GSE regulatory agency must have more than the powers associated with conservatorship. In particular, the new regulatory agency must have all the receivership authority that is necessary to direct the liquidation of assets and otherwise direct an orderly wind down of an enterprise. The new regulatory agency must also be required to take mandatory receivership actions under certain circumstances. Such receivership authority can be established in full recognition that the Congress has retained to itself, in the case of Fannie Mae and Freddie Mac, the power to revoke a charter. Providing the new regulatory agency the ability to complete an orderly wind down of a troubled regulated entity also encourages greater market discipline by clarifying that investors may suffer losses. Enhanced market discipline is essential to promoting safe and sound operations, which is consistent with maintaining the GSEs' role in our housing finance system and protecting our broader financial system from problems at a GSE.
- *New Activity Approval and Mission Oversight* – Under current law, the Department of Housing and Urban Development (HUD) is responsible for approving new programs, setting housing goals, and overall mission oversight of Fannie Mae and Freddie Mac. The authority for approving new activities of Fannie Mae and Freddie Mac and ensuring compliance with their mission must be transferred from HUD and combined with the other supervisory/enforcement powers of the new housing GSE regulatory agency. This authority is consistent with availability of one of the central tools that every effective financial regulator has – the ability to say "no" to new activities that are inconsistent with the charter of the regulated institutions, with their prudential operation, or with the public interest.
- *Other Aspects of Enhanced Authority* – Housing GSE reform legislation also should include additional measures in order to provide the new regulator with authorities comparable to other U.S. financial institution regulators. Such enhancements should ensure that the GSE regulatory agency has: (1) independent funding outside of the appropriations process; (2) independent litigating authority and other related powers; and (3) the full set of regulatory and enforcement tools.
- *Government-Appointed Directors* – The Federal government should not be involved in the appointment of directors to the boards of Fannie Mae, Freddie Mac, and the FHLBanks. Consistent with long-standing principles of corporate governance, directors of the housing GSEs have a fiduciary responsibility to shareholders. The government appointment of directors does not change this fiduciary responsibility, but does give the impression that the government may have a say or influence in the operation of the housing GSEs. That is not the case, and this should be corrected to improve corporate governance and to clarify further that the housing GSEs are not backed by the Federal government.
- *Combining the Regulatory Authority of the Housing GSEs* – The FHLBanks are regulated by the Federal Housing Finance Board. The FHLBanks should be placed under the same regulator with Fannie Mae and Freddie Mac, and this new regulatory regime should be structured to take into account certain special differences between the FHLBanks and the other GSEs. This would enhance the critical mass of financial expertise needed to oversee the GSEs. At the same time there are many common synergies, such as the FHLBanks' investments in mortgages and MBS, and the mortgage investments of the other housing GSEs. In addition, combining regulatory authority over all of the housing GSEs under one regulator has the potential to increase the stature of the new agency and better enable it to deal with these large and influential companies.

The housing GSE regulatory reform bill passed by the House of Representatives (H.R. 1427) addresses many of these aforementioned core reform issues in an adequate manner. However, additional elements of reform are necessary to address the GSEs' particular characteristics.

Additional Key Elements of Housing GSE Regulatory Reform

In addition to addressing the fundamental shortcomings in the current GSE regulatory structure, it is just as important that the new regulator have the appropriate authority to consider the unique characteristics of the GSEs and their housing missions. The housing GSEs were created to accomplish a mission, and they were provided a certain set of statutory benefits to help in carrying out that mission.

For example, in terms of specific benefits, the housing GSEs are not subject to state or local taxation and they have access to a line of credit with the Treasury Department. Fannie Mae and Freddie Mac each have a $2.25 billion line and the FHLBank System has $4 billion line, which pales in comparison to the size of their debt obligations –$770 billion each for Fannie Mae and Freddie Mac and $1.1 trillion for the FHLBank System as of September 30, 2007.

The GSEs also benefit from the market's misperception that the U.S. Government guarantees or stands behind GSE obligations. This misperception, unfortunately, results in preferential funding rates being provided to the GSEs. There are differing views on the precise amount of this benefit, but there is general agreement that the benefit exists. It is this benefit and a lack of effective market discipline that largely drove the rapid expansion of the retained mortgage portfolios of Fannie Mae and Freddie Mac throughout the 1990s.

Fannie Mae and Freddie Mac operate in the secondary mortgage market by providing credit guarantees on mortgage-backed securities (MBS) or by directly investing in mortgages and mortgage-related securities through their retained mortgage portfolios.

In the credit guarantee business, Fannie Mae and Freddie Mac generally enter into swap agreements with mortgage lenders under which individual mortgages are transformed into MBS guaranteed by the GSEs. Fannie Mae and Freddie Mac also have the ability to purchase mortgages and package them into MBS.

In the mortgage investment business, Fannie Mae and Freddie Mac issue debt securities to fund an investment portfolio of mortgage-related securities. In comparison to the credit guarantee business where credit risk is the main exposure, the mortgage investment business involves both credit and interest rate risk. As has been evident during the recent problems in the mortgage market, liquidity in the conforming mortgage market has remained relatively stable. This has occurred primarily through the GSEs' credit guarantee function and increased levels of mortgage securitization as the size of their retained mortgage portfolios essentially has remained unchanged since 2005. While credit risk has been increasing and should not be taken lightly, especially in the current mortgage market environment, the Treasury Department continues to believe that the mortgage investment businesses of Fannie Mae and Freddie Mac present the greatest potential risks over the long-run. At the same time, the mortgage investment business has a much more tenuous connection to the GSEs' housing mission.

As the Treasury Department has noted previously, the combination of three key features of Fannie Mae's and Freddie Mac's retained mortgage portfolios warrant the attention of policymakers: (1) the size of the retained mortgage portfolios of Fannie Mae and Freddie Mac – $1.4 trillion as of year-end 2007; (2) the lack of effective market discipline; and (3) the interconnectivity between the GSEs' mortgage investment activities and the other key players in our nation's financial system, both insured depository institutions and derivative counterparties. The combination of these three factors causes the GSEs to present the potential for systemic risk to our financial system and the global economy.

The idea that the GSEs have unique characteristics that could create tensions or potential problems is not an ideological or partisan view. Policymakers have been struggling with the inherent tension and the potential problems posed by the GSEs for decades. In fact, a Treasury Department official stated in testimony a few years ago, "[a]s the GSEs continue to grow and to play an increasingly central role in the capital markets, issues of potential systemic risk and market competition become more relevant." That statement was not from a member of the Bush Administration Treasury Department, but rather from testimony delivered in March of 2000 by the

then Under Secretary Gensler of the Clinton Administration Treasury Department.

As we further consider authorities of the new GSE regulator, to address the long-run issues posed by their retained mortgage portfolios, the new housing GSE regulatory agency must be provided specific review authority over the retained mortgage portfolios of Fannie Mae and Freddie Mac. Such authority must establish a clear and transparent process based on guidance from the Congress on how the new regulatory agency will evaluate the retained mortgage portfolios in terms of risk and consistency with mission. While the broader risk issues related to the FHLBanks are less than those that are present with Fannie Mae and Freddie Mac, a review of the investment portfolios of the FHLBanks for mission consistency also would be appropriate.

Conclusion

In conclusion, we at the Treasury Department remain convinced that a new regulatory structure for the housing GSEs is essential if these entities are to continue to perform their public mission successfully. We look forward to continuing to work with you on this important issue. Thank you.

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PRESS ROOM

February 7, 2008
HP-814

**Prepared Statement by Ana M. Guevara,
Nominee for United States Alternate
Executive Director of the International Bank
for Reconstruction and Development, Before
the Senate Committee on Foreign Relations**

Mr. Chairman and Members of the committee, I am grateful for the opportunity to appear before you today. I am honored to have been nominated to serve as U.S. Alternate Executive Director at the International Bank for Reconstruction and Development. President Bush said in his State of the Union Address that America is leading the fight against global poverty, hunger and disease; and that "America is a force for hope in the world because we are a compassionate people". I share this belief. And as compassionate people with a unique leadership role in the World Bank, the United States must engender strong partnerships to ensure programs meant to eradicate poverty and create inclusive economic growth are not squandered by corruption and mismanagement.

If confirmed, I will have the great privilege and responsibility to represent the United States at the World Bank. I look forward to the opportunity to work with Treasury Secretary Paulson and others in our government – as well as with our partners at the World Bank – to improve its effectiveness and impact. Catalyzing prosperity in the developing world and post-conflict countries is not just a moral imperative. It helps create local stability and peace. And it creates new markets for American entrepreneurs. Our prosperity and security is tied to those whom we endeavor to help.

For the past two decades, whether as a businesswoman or government official, I have gained extensive experience forging strong partnerships and formal agreements with governments and international institutions in Asia and Latin America. If confirmed, I will apply these skills to build coalitions that will foster broad support for U.S. priorities with member countries of the World Bank. My professional life has focused on increasing trade and developing economic competitiveness, whether by opening new markets or providing capacity building for modern supply chains, customs procedures and cultural and heritage tourism or by protecting U.S. companies from unfair and corrupt practices oversees, or even by promoting venture capital and entrepreneurism. I have also served as ex-officio board member of the Export Import Bank, worked with the board of the Oversees Private Investment Corporation and overseen the Department of Commerce's participation in the Interagency Working Group on Multilateral Aid.

The most gratifying experience of my professional life, however, has been the community education projects in Mexico, China, Poland, Ukraine, and rural America that I was fortunate to be involved with while in the private sector. In Mexico I developed a 10-year educational development program where I learned first hand about the many challenges in implementing a results oriented project. It allowed me to see how given the right tools, proper food and nutrition, warm clothes – and a little hope and encouragement – that even the poorest child facing the greatest odds can flourish, exceeding his or her own expectations and transforming a community's quality of life and more importantly, quality of spirit. In working with the community projects , I also learned how corruption can hurt these programs and the people they are meant to help when I was forced to turn away one of the communities under consideration because I was not convinced local officials would enforce proper fiduciary controls for project funds.

Mr. Chairman, if confirmed I will use the combination of my experience with the

private sector, public sector and community service to build support for U.S. priorities such as anti-corruption, governance and accountability, transparency, debt sustainability, environmental safeguards, and to improve results. I will seek to help developing countries capitalize on the benefits of globalization and trade, and to promote inclusive and sustainable prosperity through private sector development in these countries.

Thank you, Mr. Chairman. I would be pleased to answer the committee's questions.

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February 7, 2008
HP-815

Statement by Secretary Paulson on Senate Passage of the Economic Growth Package

"I congratulate the Senate leaders for their quick action to pass a bipartisan economic growth package that is temporary, broad-based, and will get money into our economy quickly. This package of payments to individuals and incentives for businesses to invest will support our economy as we weather the housing downturn.

"It was a pleasure to work in a bipartisan spirit with House and Senate leaders to act quickly to support our economy and create jobs this year. Our cooperative effort demonstrates to the nation and the world that we can come together to address the needs of the American people.

"As soon as this legislation is passed by both houses, the IRS will begin its work to get payments out to more than 130 million Americans. The IRS will manage the current tax filing season and simultaneously prepare to issue these additional payments starting in early May. Payments will be largely completed this summer, putting cash in the hands of millions of Americans at a time when our economy is experiencing slower growth."

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PRESS ROOM

February 8, 2008
hp-816

**Deputy Secretary Kimmitt Remarks As Prepared For Delivery
On The Challenge From Iran And The American Response
Before The Anti-Defamation League National Executive Committee Meeting**

Palm Beach, Fla. - Thank you, Tony Schneider, for that kind introduction. Hearing my work history always makes me wonder if the audience wishes the organizers had found a speaker who did not have so much trouble holding a job!

For over 30 years, it has been my honor and pleasure to work with the Anti-Defamation League. The pursuit of your vital mission with diligence and vigilance was important when we met; it is important today; and it will remain important for generations to come.

It has been my particular pleasure to work with individuals the quality of Abe Foxman, Jess Hordes, and Ken Bialkin. Jess, like Ken Bialkin, is a consummate professional, very buttoned down, with a great smile and firm handshake. Abe is equally professional, also has a great smile, but, as this group well knows, whenever Abe sees you, you better be ready not for a firm handshake but rather a bear hug!

My relationship with the Anti-Defamation League continued during my tour as American Ambassador to Germany. I am reminded of the counsel I received from my predecessor, Ambassador Vernon Walters, who told me: "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 the one assembled here today. He spoke in his excellent German for 40 minutes and sat down, rather pleased with himself, only to have the host of the event stand and say, "Mr. Ambassador, thank you so much 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, my allotted 20 minutes only leaves me time today for "remarks." But I hope these remarks and the question period to follow will give you new insights into the work your Treasury Department is doing to stop the flow of illicit finance to Iran and other state sponsors of terror and proliferation.

The U.S. Economy, Credit Markets, and Housing Markets

Before turning to Treasury's growing role in protecting our Nation's security, including countering the challenge from Iran, let me say a few words about the state of the U.S. economy – an issue always at the forefront of Treasury's agenda, and one that was a key topic of interest at the World Economic Forum in Davos, which I attended last month.

As the President said last week in his State of the Union address, U.S. economic fundamentals are sound, and the economy is expected to continue to grow. At the same time, growth has clearly slowed; real GDP growth slipped to 0.6 percent at an annual rate in the fourth quarter last year. The U.S. economy is facing significant headwinds from housing, credit markets, and energy prices.

The correction we are experiencing in the housing market remains formidable, coming as it does after years of rapid, unsustainable home price appreciation. Housing starts have fallen over 50 percent from their peak, and, nationwide, home prices are roughly flat over the past year.

Some of the incoming economic data are raising concerns about the health of our expansion, including reports that consumer spending is slowing. Also, while over 8 million jobs have been created since August 2003, including over 1 million just in the past year, January saw the first decline in payrolls in over 4 years, with payroll employment dropping by 17,000.

Therefore, while we are confident about our long-term economic strength, there are downside risks to near-term growth. For this reason, the Administration has worked closely with Congress to reach a bipartisan agreement on a short-term economic growth package that can be put in place as soon as possible to keep our economy growing and creating jobs this year.

After much hard work with the House and Senate, the Administration has reached final agreement on a package that is temporary, broad-based, and will have an impact immediately. The House led this important bipartisan effort by passing its bill on January 29th, and it included measures to bolster business investment and consumer spending – both of which are critical to economic growth. Last night, the Senate passed an amended version of the bill, and the House quickly approved, clearing the measure for the President's signature in the coming days.

The experience of the 2001 and 2003 tax cuts showed that providing tax relief to families stimulated the broader economy by boosting household spending. Furthermore, offering incentives to spur business investment will encourage businesses to expand and create new jobs. By quickly putting in place this short-term package, we can protect the strength of our economy as we weather the housing correction.

The Administration is also continuing to promote initiatives to minimize the impact of the housing market downturn. In the short term, we are focusing on the number of preventable foreclosures we can avoid. And we have made progress. The HOPE NOW alliance, a private-sector coalition of mortgage servicers, mortgage counselors, investors, and trade associations, has announced promising developments by stepping up the rate at which they are modifying subprime mortgages to stave off foreclosures. In fact, mortgage servicers modified subprime loans in the fourth quarter at a rate three times faster than in the preceding quarter. But much more needs to be done, on a bipartisan basis, to ensure that we avoid a recurrence of excesses and abuses by addressing the underlying causes of today's turbulence.

In short, to be effective managers of the U.S. economy, we need to be forthright about the challenges we face, find bipartisan solutions where government action is warranted, and look to market participants also to play their very important role.

Iranian Threat and Deception

I am reminded of the importance of good economic management when I look half way around the world at Iran, where the regime's economic mismanagement has led to deteriorating living standards for the Iranian people:

Both unemployment and inflation rates in Iran are on the rise, with independent experts estimating the unemployment rate to be roughly twice the 11 percent claimed by the regime.

In the face of staggering inflation, Iran's President ordered the Central Bank to cut interest rates far below the inflation rate and then fired his central bank governor for questioning this irresponsible decision.

Iran is rife with corruption, as the Iranian regime grants profitable "no-bid" contracts to the Islamic Revolutionary Guard Corps, whose leadership has been sanctioned by the UN Security Council.

Finally, the regime is spending the profits of the country's oil revenue reserve fund in an attempt to hide the effects of these reckless economic policies, at a time when

the fund should be growing to benefit the future of the Iranian people.

These conditions have led to growing dissatisfaction among the Iranian people. Rather than working to correct the worsening economic situation, however, the Iranian regime has instead focused its efforts on silencing critics and using its resources to pursue dangerous and destabilizing activities.

Over the past 30 years, my work has focused largely on national security issues, and one of the most challenging concerns I have encountered is the threat we face from Iran. From the Iranian regime's facilitation of millions of dollars to deadly terrorist organizations to its pursuit of a nuclear capability and ballistic missiles, Iran poses a threat to the security of the United States, Europe, and the Middle East. But perhaps the greatest threat is to our strongest ally in the region: the State of Israel.

Iran has ignored repeated calls from the International Atomic Energy Agency (IAEA) and the UN Security Council to suspend its nuclear enrichment and reprocessing activities and to comply with its obligations under the Nuclear Non-Proliferation Treaty. Just this past Monday, Iran launched a research rocket and unveiled its first major space center. This rocket technology could have a dual-use purpose serving as a possible cover for further development of ballistic missiles of increasing range and sophistication in violation of UN Security Council Resolutions. Given Iran's record of deceptive behavior in pursuing proliferation activities, this launch serves as a reminder of the need for continued action as well as vigilance in dealing with Iran.

Iran's role in supporting international terrorism is also of serious concern. The regime spends hundreds of millions of dollars each year to fund terrorist groups. Iran uses its Qods Force, a branch of the Islamic Revolutionary Guard Corps, to provide material support for terrorist organizations. Those groups include the Taliban, the Palestinian Islamic Jihad, Hamas, the Popular Front for the Liberation of Palestine-General Command, and Hizballah – an organization that has killed more Americans than any terrorist network except for al Qaida. In the case of the Palestinian Islamic Jihad, Iran's financial support has been made expressly contingent upon the group carrying out attacks against Israel. And we are all familiar with Iran's funding and equipping of elements of the insurgency in Iraq, further destabilizing that country and resulting in the deaths of American and Iraqi forces and innocent civilians.

Iran's long-time integration into the international financial and commercial systems has aided the regime in supporting and carrying out its dangerous activities. The Iranian regime disguises its involvement in proliferation and terrorism activities through an array of deceptive practices specifically designed to evade detection from the international community. We have seen entities associated with Iran's nuclear and missile programs utilize an extensive network of front companies to conceal the true ownership of funds and end-use of commercial goods. Teheran also uses financial intermediaries to engage in ostensibly innocent commercial transactions that are actually related to its WMD programs. These front companies and intermediaries enable the regime to obtain dual-use technology and materials from countries that would typically prohibit such exports to Iran.

These deceptive practices are specifically designed to evade the risk-management controls put in place by responsible financial institutions and have allowed actions by Iranian banks to remain undetected as they move funds through the international financial system to pay for the Iranian regime's illicit activities.

Iran uses its state-owned banks to facilitate this conduct, and those banks engage in a range of deceptive practices. For example, some have requested that other financial institutions take their names off transaction documents when processing them globally. This practice, which makes it difficult, if not impossible, to determine the true parties in the transaction, is even used by Bank Markazi, Iran's Central Bank.

Iranian state-owned banks provide financial services to Iranian entities that have

been sanctioned by the UN Security Council. Bank Melli, Iran's largest bank, has provided a range of financial services on behalf of Iran's nuclear and missile industries, including opening letters of credit and maintaining accounts. In addition, Bank Melli facilitated transactions for Bank Sepah and the Iranian Defense Industries Organization after they were both sanctioned by the United Nations. Another Iranian state-owned bank, Bank Saderat, has channeled funds to terrorist groups. Between 2001 and 2006, Bank Saderat moved $50 million from the Central Bank of Iran through its subsidiary in London to its branch in Beirut to the benefit of Hizballah front organizations in Lebanon that support acts of violence.

The Financial Strategy on Iran and our Multilateral Efforts

The Treasury Department is playing an integral role in the Administration's Iran strategy. The financial component of the Iran strategy is aimed at highlighting the reckless and threatening conduct of the Iranian regime, deterring Teheran's dangerous activities through the use of targeted financial measures, and preventing the regime's abuse and manipulation of the international financial system.

Over the past two years, senior Treasury Department officials, including Secretary Henry Paulson, Under Secretary Stuart Levey, and I have met with our finance ministry and central bank counterparts from around the world to discuss the importance of ensuring that the international financial system is not tainted or harmed by Iran's abuse. In December, I traveled again to the Middle East, including Israel, to advance our efforts. We have also engaged in unprecedented outreach to the international private sector, meeting with over 40 banks around the world to share information and discuss the inherent risks of doing business with Iran. Our message is clear: when dealing with Iran, it is impossible to "know your customer," which any reputable bank knows is a fundamental responsibility for protecting its business and reputation.

Most importantly, we have backed up our words of caution with concrete action. Since 2006, the U.S. government has targeted key Iranian entities of proliferation concern, including the Islamic Revolutionary Guard Corps, the Ministry of Defense, and Armed Forces Logistics, as well as three Iranian state-owned banks – Banks Sepah, Melli, and Mellat. The United States has also designated the IRGC Qods Force and Bank Saderat for their role in facilitating Iran's support to terrorist groups. These measures not only prevent U.S. persons from doing business with these targeted persons and require any of their assets subject to U.S. jurisdiction to be frozen, but also highlight to the global financial community these actors' dangerous conduct.

Of all these measures, the U.S. designation of Iranian banks has proven particularly significant, as they signal to the private sector that Iran is using its state-owned banking network to facilitate proliferation-related activities and to finance terrorism. Bank Sepah, in particular, has not only been designated by the United States, but also by the UN – a historic move – thereby obligating the international community to freeze the assets of this institution along with all other listed entities and individuals. We urge countries to implement fully their UN obligations against Bank Sepah, and we are working to ensure that the international community will continue to act against other Iranian financial institutions facilitating illicit proliferation activity.

Our financial enforcement efforts have come a long way from the sanctions measures we have applied to threats in the past. The U.S. Government has been implementing sanctions with respect to Iran for some time, and we have come to learn that the most effective measures meet the following criteria:

They are carefully targeted at illicit conduct;
They are multilateral in scope; and
They are combined with private sector and foreign government outreach

While in the past our broad-based country sanctions have been criticized by some as an inappropriate extension of U.S. law, these new targeted efforts serve to engage our allies, rather than confront them. As a result, a greater number of international partners who share our objective of stopping Iran from acquiring a

nuclear capability have joined our efforts. Sanctions have the most comprehensive impact when applied cooperatively and collectively.

The combination of Treasury's financial sanctions authorities and the State Department's intensive diplomatic efforts have served to catalyze international action, resulting in two unanimous United Nations Security Council Resolutions targeting Iran's pursuit of nuclear capabilities and ballistic missiles. Negotiations on a third resolution are currently underway. Member states are required to freeze the assets of, and prohibit persons from doing business with, a number of entities and individuals supporting these activities.

Additionally, last October, the world's premier standard-setting body on countering money laundering and terrorist financing – the Financial Action Task Force, or FATF – issued a public statement confirming the extraordinary systemic risks that Iran poses to the global financial system. Further, the FATF issued guidance to assist countries in implementing the financial provisions of the UN resolutions on Iran. That guidance identified customers and transactions associated with Iran as representing a significant risk of involvement in proliferation finance.

Challenges Facing the Administration

U.S. and international measures are having an impact, but it is clear that much more work remains to be done if we are to compel the Iranian regime to change its behavior. With years of experience under its belt, Iran has become very savvy at using deceptive practices to trick its partners into thinking transactions are for commercial uses, when in reality they are intended to support their proliferation activities.

Over many years, the United States has developed a robust and flexible set of tools that can be adapted easily to combat new and emerging challenges. While we have the power to impose targeted economic sanctions against threats to our national security through strong domestic authorities – namely the International Emergency Economic Powers Act – many of our allies and partners lack the necessary flexibility to take the types of action that we have taken. The development of similar tools by our international partners is necessary if we are to maintain a comprehensive and multilateral coalition against the threats of terrorism and proliferation.

An additional challenge lies in foreign government-sponsored trade finance programs, which effectively subsidize companies willing to take on the risk of dealing with Iran. While there will always be a company or bank willing to take on a risky business venture at some price, we have asked our foreign partners to consider whether governments should be subsidizing this risk in the form of export credit programs that only serve to reinforce the very activity we are trying to stop. The good news is that we have seen a decrease in export credits from countries such as Germany, France, and Japan, and as more countries realize the inherent risk associated with doing business in Iran, we expect to see a continued downward trend.

National Intelligence Estimate

In recent months, some have questioned the immediacy of the threat posed by Iran in light of the release of the National Intelligence Estimate, which concluded that Iran halted its nuclear weapon design and weaponization work in 2003. Let me make clear: Iran remains a serious threat, a threat that needs to be countered. Indeed, rather than dismiss Iran's illicit conduct, the NIE affirms Iran's continued enrichment of uranium and its simultaneous pursuit of ballistic missile delivery capabilities. This dangerous combination remains a cause for real concern and warrants continued action by the United States and the world community.

The NIE also verifies the effectiveness of diplomacy, and we have found financial pressure to be the central factor in the overall diplomatic effort. The United States and our allies have worked to build an international alliance, effectuated through UN

and other actions, condemning Iran's continued defiance of the international community. We know from the NIE that Iran watches carefully and responds to this international pressure.

We have also seen the isolating effect that financial pressure has had on the Iranian regime, with more and more members of the global community working together to counter the threats posed by Iran. Iranian state-owned banks, in particular, are finding themselves increasingly isolated, threatening the viability of their foreign-based branches and subsidiaries. We will continue to work with our international partners in both the public and private sectors to implement the United Nations Security Council resolutions, pursue additional multilateral steps, share information, and protect the international financial system from deceptive conduct and abuse. The National Intelligence Estimate should spur, not deter, additional international action.

Conclusion

Treasury has an important role to play in protecting our national security by ensuring that our financial system is not only safe and sound, but also secure from exploitation by illicit actors. The use of targeted financial measures against Iran is just one way we have used these tools. In recent months, the United States Government has also demonstrated the agility and adaptability of targeted financial measures to address other threats to international peace and security, including the flow of foreign fighters and weapons into Iraq, continued attempts by Syria to reassert control over the Lebanese political system, and the atrocities committed in Darfur.

Treasury's engagement in these issues also helps ensure that we take a comprehensive view of the security challenges we face – that we examine them not only from military and political perspectives, but from an economic perspective as well.

Looking forward, I see a world in which economic issues will play an even more prominent role in our nation's security, and Treasury will continue to integrate its activities even closer with other national security departments. We will also continue to engage our international partners on issues of mutual concern, since it is clear that sanctions, and especially targeted financial measures, will always be more effective when done on a multilateral basis. Nowhere is this multilateral action more important today, and in the future, than in our common effort and responsibility to deter Iran's threat to the security of Israel, the Middle East, and the world.

Thank you again for your kind invitation and may God bless you all and your families. At this time, I would like to open the floor to questions.

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PRESS ROOM

February 9, 2008
HP-817

Statement by Treasury Secretary Henry M. Paulson, Jr.
Following Meeting of G-7 Finance Ministers and Central Bank Governors

Tokyo Japan – I was very pleased to travel to Tokyo for today's meeting of G-7 Finance Ministers and Central Bank Governors. This meeting took place amid slowing global growth and downside risks facing the G-7 economies in large part stemming from recent financial market turbulence. Today's meeting gave us the opportunity to discuss policy responses to these downside risks as well as the need to craft effective policy and regulatory responses that institute sounder frameworks better able to withstand risks and stresses.

I am confident in the long-term health of the United States economy and I expect that it will continue to grow in 2008. The housing correction, high energy prices, and capital market turmoil have combined to weigh on near-term growth. Indeed, growth slowed markedly at the end of 2007. Given the short-term downside risks, we clearly needed to act. The President called for a growth package that would have a real impact on our economy and just before I left Washington, Congress passed legislation that meets the President's principles for an effective growth package. We believe the package will provide a much-needed boost this year. It was a sincere pleasure to work in a bipartisan spirit on this package and demonstrate that the government is capable of coming together to work in the best interests of the American people.

We are also working directly on the housing market, pursuing efforts through a private sector alliance and with Congress to avoid preventable foreclosures.

The longer-term global economic outlook would also be significantly enhanced if the recent progress in the Doha round could be translated rapidly into the substantial lowering of tariffs and other barriers to trade. We encourage all parties to seize this opportunity, especially in the area of financial services, and other services sectors, and make additional efforts now to secure economic gains and combat protectionist pressures.

We discussed the impact of elevated oil prices on our economies. We encouraged increased oil production from OPEC and others and underscored the need to increase refinery capacity and improve energy efficiency.

The current financial turmoil is serious and persisting. While financial markets are improving, it will take time to work through the current financial turmoil. As the financial markets recover from this period of stress, as of course they will, we should expect continued volatility as risk is repriced.

Market participants have taken encouraging steps to address the financial turmoil. Since August, financial institutions have disclosed and written off more than $150 billion of assets, and U.S. financial institutions have raised more than $95 billion in new capital. Past episodes of financial turmoil have demonstrated that recognizing losses and restoring capital are two of the very most important steps toward restoring financial normalcy.

At our last meeting in October, G-7 Finance Ministers and Central Bank Governors asked the Financial Stability Forum (FSF) to analyze the underlying causes of the turbulence and offer proposals in such areas as risk management, the accounting and valuation of structured products, the role and use of credit ratings in structured

finance, and prudential oversight of regulated financial entities. Today, FSF Chair Mario Draghi briefed us on the FSF's interim findings on the supervisory framework and oversight; the underpinnings of the originate-to-distribute model; the uses and role of credit rating agencies; market transparency; supervisory and regulatory responsiveness to risks; and the authorities' ability to respond to crises. I want to personally thank Mario Draghi for his excellent report and commend him for his leadership.

The FSF Report focuses on the causes of the turmoil and some of the systemic weaknesses that allowed the turbulence to spread throughout the global financial system. It identifies many financial market practices and supervisory and regulatory policies that merit our attention. The areas cited in the interim report closely track those also being discussed by the President's Working Group on Financial Markets, and I was able to brief my colleagues on that work.

One of the lessons of this current market turmoil is the increasing need for frequent communication and close coordination during times of stress and in formulating the appropriate policy responses to manage the likelihood of recurrence of the same problems.

As financial officials, we need to respond resolutely and proactively to the turmoil. Indeed, the work in the FSF and PWG is emblematic of that, as are the steps the U.S. is taking to support our economy, prevent foreclosures, and strengthen consumer protection. But the questions raised are complex and require real answers that stand the test of time. I look forward to the FSF's report in April and I underscored the important role that global standard setting bodies will play in expeditiously tackling many of the issues that have been identified.

We also discussed the need for our countries to remain open to foreign investment. I reiterated the open investment policy of the United States and explained that this commitment to open investment also frames our approach to protecting national security through the Committee on Foreign Investment in the United States. I emphasized that all countries undergoing investment review processes, including those in the G-7, should focus on genuine national security concerns and not broader economic and national interests.

Sovereign Wealth Funds (SWFs) have recently received considerable attention. It is important that we approach these policy issues surrounding SWFs in a measured, reasoned, and multilateral manner while remaining vigilant against protectionist sentiment raised in the international financial system. We strongly supported IMF Managing Director Strauss-Kahn's efforts to identify best practices for SWFs.

We are resolved to continue our work in the OECD to identify best practices for the inward investment regimes of countries that receive government-controlled investment, including from SWFs.

We had a useful discussion on IMF reform. I stressed the need for firm implementation of the IMF's new framework for exchange rate surveillance and underscored that fundamental reform of the IMF's governance structure is needed to reflect the rising importance of dynamic emerging markets. Regarding the Fund's medium-term financing picture, I emphasized that serious consolidation of expenditures, along the lines put forward by Managing Director Strauss-Kahn, must be pursued in tandem with consideration of new income sources.

I was pleased to join my colleagues from the UK and Japan in underscoring our commitment to the creation of an international clean technology fund. In the State of the Union address, President Bush announced he is committing $2 billion over the next three years to the fund. The fund would help finance clean energy projects in the developing world by financing the gap between traditional and more expensive clean technology. We envision that the fund will leverage the resources of bilateral donors, multilateral development institutions, and the private sector.

We look forward to working with other countries to help ensure the fund's success.

We reaffirmed our commitment to vigorously counter money laundering, terrorist and proliferation financing in order to promote economic development and safeguard the integrity of the global financial system. We remain particularly concerned about the risks of illicit finance emanating from Iran. We strongly support the public actions of the Financial Action Task Force (FATF) to protect the international financial system from these risks, and agreed that FATF should continue to take such measures. We also agreed that FATF should continue to apply its expertise in providing guidance to assist states in implementing their financial obligations under U.N. Security Council resolutions to combat WMD proliferation. We strongly support the continued cooperation of the IMF and World Bank with the FATF to combat money laundering and terrorist financing worldwide.

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February 9, 2008
hp-818

Statement of G-7 Finance Ministers and Central Bank Governors

Tokyo, Japan – We, Finance Ministers and Central Bank Governors of the G-7 countries, met today to discuss issues facing the world economy. The world confronts a more challenging and uncertain environment than when we met in last October, though its fundamentals as a whole remain solid. In the United States, output and employment growth have slowed considerably and risks have become more skewed to the downside, but long-term fundamentals remain sound and we expect growth to continue in 2008. In all our economies, to varying degrees, growth is expected to slow somewhat in the short-term, reflecting wider global economic and financial developments. Emerging market economies (EMEs) are forecast to continue robust, if slower, growth. We note that downside risks still persist, which include further deterioration of the U.S. residential housing markets; tighter credit conditions from prolonged difficulties in the financial markets; high oil and commodity prices; and heightened inflation expectations in some countries. Each of us has taken actions, appropriate to our domestic circumstances, in the areas of liquidity provision, monetary policy, and fiscal policy. We also remain committed to strengthening our efforts to enhance growth through necessary reforms. Going forward, we will continue to watch developments closely and will continue to take appropriate actions, individually and collectively, in order to secure stability and growth in our economies.

We are deeply engaged in working together to strengthen financial stability, limit the impact of the financial turmoil and address the factors that contributed to it. Co-ordinated liquidity provision by Central Banks has helped mitigate short-term pressures in the money markets. Financial institutions' recognition and full and prompt disclosure of their losses, based on appropriate valuation, accompanied, where necessary, by measures to reinforce their capital base, play an important role in reducing uncertainty, improving confidence, and restoring the normal functioning of the markets. We urge this process to continue. Authorities should encourage market-led improvements in transparency and disclosure practices in this area, and, where needed, provide clear and consistent guidance.

In October, we asked the Financial Stability Forum (FSF) to analyse the underlying causes of the recent turbulence and put forward relevant actions and initiatives in a number of areas. We welcome its interim report and the good progress that has been made, and look forward to its final report in April. We will act expeditiously on its recommendations. Among the issues that have to be addressed, we emphasise, in particular,

- the importance of promoting prompt and full disclosure by financial institutions of their losses and of valuation of structured products;
- strengthening management of liquidity risks at financial institutions by accelerating the development of an internationally consistent approach by the Basel Committee on Banking Supervision;
- improving the understanding and disclosure of banks' and other financial institutions' exposure to off-balance sheet vehicles;
- enhancing underpinnings of the originate-to-distribute model by ensuring an appropriate incentive structure comes into play;
- addressing potential conflicts of interest at credit rating agencies, and improving the information content of ratings to increase investors' awareness of the risks associated with structured products; and
- implementing the Basel II capital adequacy framework to enhance transparency and risk management.

In addition, authorities should review, as necessary, their mandates, coordination mechanisms, and instruments to ensure measured and flexible responses to market stress, including arrangements for dealing with weak and failing financial institutions, both domestically and cross-border. We ask the IMF and the FSF to report at our next meeting on identifying potential vulnerabilities and enhancing early warning capabilities. We stand ready to take any further action necessary to enhance stability in the financial market and to ensure that international integration of financial markets and financial innovation continue to bring about benefits to the world economy.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely, and cooperate as appropriate. We welcome China's decision to increase the flexibility of its currency, but in view of its rising current account surplus and domestic inflation, we encourage accelerated appreciation of its effective exchange rate.

Elevated oil prices largely reflect rising world demand, but other elements such as geopolitical concerns also play the role. We encourage OPEC and other oil-producing countries to raise production, and reiterate the need to enhance refinery capacity and improve energy efficiency. It should be avoided to artificially lower domestic energy prices through fiscal measures, as it works against market-based adjustment of energy demand, and raises gas emissions. We asked the IMF to conduct further research on the real and financial factors behind the recent surge in oil prices, and its effects on the global economy. Upholding open trade and investment regimes is critical to realising global prosperity and fighting protectionism. We highlight the urgent need for a successful conclusion of the Doha Development Round that will substantially lower tariffs and other barriers to trade, including in the financial and other services sectors. We look forward to the outcome of the work under way at the IMF to identify best practices for sovereign wealth funds (SWFs) in such areas as institutional structure, risk management, transparency and accountability. We also encourage the OECD to build on its important work by identifying investment policy best practices for countries that receive cross-border investment from SWFs. We welcome the work by private sector representatives to develop strengthened voluntary best practices for Highly Leveraged Institutions in line with the FSF recommendations. We will continue to explore the issue of mutual recognition of comparable securities regimes, and how this can enhance international investment flows.

We discussed IMF reforms. We reaffirm our support for the recent IMF surveillance decision on exchange rate, financial sector, fiscal and monetary policy, and urge its rigorous and even-handed implementation. We support the recent proposal by the Managing Director to re-focus the IMF's operations on core priorities and to cut spending by $100 million over three years. To fill the remaining gap, we are prepared to take measures to augment income, considering proposals in the Crockett report. We emphasised the importance of better aligning quota share of member countries with their relative position in the world economy based on a simpler and more transparent formula. We reaffirmed our commitment to concluding the quota and voice reform by the Spring IMFC meeting. A successful conclusion is a critical step in enhancing legitimacy and effectiveness of the IMF.

We discussed the importance of the unified action to address global climate change while supporting growth and economic development, based on the Bali Action Plan of December 2007. We will seek to enhance the critical roles played by international financial institutions and the private sector in reducing greenhouse gas emissions. Market based policies, which could include taxes and emission trading, will become increasingly important in combating climate change. They should be designed to meet specific conditions in each country. We also acknowledged the need to scale up investment in developing countries to support them in joining international efforts to address climate change. The deployment of clean technologies would be further enhanced through the reduction or elimination of trade barriers for key environmental goods and services. We also discussed the initiative by Japan, the United Kingdom and the United States to create, in collaboration with the World Bank and others, a strategic multilateral investment framework to address climate change. This would include, among other things, a fund that complements existing bilateral and multilateral efforts in providing financial support for the deployment of

clean technologies in developing countries.

We welcome the recent robust growth experienced by many African economies and are committed to working together with African countries to maintain and strengthen this favorable momentum. We reiterated the need to foster private-sector led growth in developing countries in order to achieve the MDGs. To that end, we agreed that it is important to continue supporting African countries in improving investment climate, fostering private enterprises, strengthening financial systems, and building reliable infrastructure.

We reaffirmed that enhanced actions to ensure debt sustainability should be carried forward. We reviewed actions to tackle aggressive litigation against Heavily Indebted Poor Countries (HIPCs). We support improvements to the World Bank's Debt Reduction Facility, including through the earlier provisions of technical assistance. We took note of proposals for establishing a legal support facility for HIPCs. We welcome the agreement reached by the OECD Export Credit Group on the Principles and Guidelines on sustainable lending to low-income countries and the interest shown by non-OECD members in this agreement. Building on our existing commitment on development and debt relief, we welcome agreement on the financing of debt relief for Liberia.

We encourage the IMF and World Bank to continue their important work in the fight against money laundering and terrorist financing. We look forward to meeting with other FATF Ministers in April to renew the mandate of the Financial Action Task Force (FATF) to address threats posed by weapons of mass destruction proliferation finance, enhance its surveillance of global threats, and deepen its dialogue with the private sector. We call upon FATF to continue to take measures to protect the international financial system from the risk of illicit finance including ensuring enhanced scrutiny of transactions involving Iran.

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PRESS ROOM

February 11, 2008
2008-2-11-15-32-44-3810

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,234 million as of the end of that week, compared to $72,220 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	February 8, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,234
(a) Securities	14,488	11,940	26,428
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	14,302	5,854	20,156
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	4,177		
(3) SDRs	9,432		
(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)	71,234
--currencies in SDR basket	71,234
--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.

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

February 11, 2008
2008-2-11-15-35-50-3840

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,234 million as of the end of that week, compared to $72,220 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	February 8, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,234
(a) Securities	14,488	11,940	26,428
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	14,302	5,854	20,156
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	4,177		
(3) SDRs	9,432		
(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)	71,234
--currencies in SDR basket	71,234
--currencies not in SDR basket	
--by individual currencies (optional)	

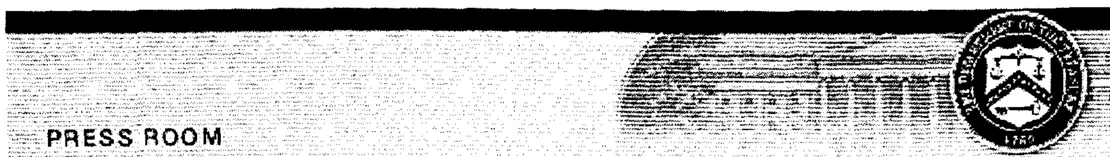
Notes:

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.

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

end.

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



February 11, 2008
hp-819

Treasury, HUD to Provide Housing Update

Treasury Secretary Henry M. Paulson, Jr. and HUD Secretary Alphonso Jackson will provide an update on efforts to help more capable homeowners avoid foreclosure Tuesday at the Treasury Department. A live webcast of this announcement will be available at www.treas.gov.

A technical briefing will follow the announcement. No cameras will be admitted to the technical briefing.

The following events are open to the media:

Who Treasury Secretary Henry M. Paulson, Jr.
HUD Secretary Alphonso Jackson

What Housing Update

When Tuesday, February 12, 11:15 a.m. EST

Where Treasury Department
Media Room (4121)
1500 Pennsylvania Avenue, NW
Washington, D.C.

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.

*****

What Pen and Pad Technical Briefing

When Tuesday, February 12, 11:45 a.m. EST

Where Treasury Department
West Gable Room (5432)
1500 Pennsylvania Avenue, NW
Washington, D.C.

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.

-30-

PRESS ROOM

February 12, 2008
hp-820

Statement by Secretary Henry M. Paulson, Jr.
on New Private Sector Effort to Reach Homeowners Facing Foreclosure

Washington, DC-- Good morning. Thank you, Secretary Jackson, for joining us. We are going to provide an update on the HOPE NOW alliance's efforts to help struggling homeowners and – as Floyd Robinson of Bank of America, speaking on behalf of six leading mortgage servicers, will announce – an additional, important effort targeting those facing the greatest, immediate risk of losing their home.

When the HOPE NOW alliance was announced in October, we made clear that this would be an evolving private sector-led effort to help minimize the impact of the housing downturn on homeowners, neighborhoods and the U.S. economy. It is just one of many steps which the Bush Administration is encouraging as we work through this difficult period. Tomorrow, President Bush will also sign into law an economic growth package that will, through rebate payments to over 130 million Americans and tax incentives to businesses, provide a temporary, meaningful boost to our economy as we weather the housing correction.

Today, six of the largest servicers, who represent 50 percent of the mortgage market, are announcing Project Lifeline, a targeted outreach to homeowners' 90-days or more delinquent that may lead to a "pause" in the foreclosure process. This is an important new initiative, targeted to reach not only subprime borrowers, but all 90-day delinquent homeowners nationwide with a step-by-step approach to find individual solutions to individual problems. We encourage all HOPE NOW servicers to adopt this new program.

Project Lifeline is aimed at homeowners who face a real risk of losing their home, but have not yet addressed the problem. Perhaps they are hoping to find a way to get current on their mortgage payments, or perhaps they don't think any solution is possible. For whatever reason they have not yet taken action; our hope is that today's announcement will reach them, and they will reach out immediately for help – especially now that the foreclosure process is upon them.

Of course, there will be homeowners who still take no action, and some will simply walk away from their mortgage – particularly those borrowers who put little or no money down and whose mortgage exceeds their home value. No program can bring every struggling borrower into the counseling and evaluation process, and we cannot help those who choose not to honor their obligations. But Project Lifeline has the potential to offer new solutions to responsible, able homeowners who want to keep their homes.

Overall, the HOPE NOW alliance is striving to help as many able but struggling homeowners as possible – whether prime, alt-a or subprime borrowers. Clearly there is much more work to do, but progress has been made since the formation of HOPE NOW just over four months ago.

In those four months:

- HOPE NOW membership has grown from 60 percent of the subprime mortgage servicer market to 94 percent; today, 25 servicers are represented.
- The nationwide hotline (888-995-HOPE) has been publicized and

expanded; daily call volume has increased from 625 to 4,000.

- Servicers and investors are now providing funds for counseling; previously, only government and foundations provided funding.
- In the first three months, HOPE NOW servicers sent 775,000 letters to at-risk homeowners; early results show a 16 percent response rate. Homeowners who had previously avoided contact are now calling for help, and over 200,000 additional letters are being sent every month.
- Today, all HOPE NOW servicers are contacting subprime borrowers 120 days before their interest rate resets.
- In the second half of 2007, the industry assisted an estimated 869,000 homeowners and, coincident with the formation of HOPE NOW, the loan modification rate in the fourth quarter doubled over the rate in the third quarter.
- Secretary Jackson will also update us on FHA's progress in moving borrowers into affordable, long-term mortgages.

These results are before implementation of the American Securitization Forum's (ASF) fast-track re-financing and loan modification framework. Servicers began implementing that plan in January after resolving a number of important issues, including receiving accounting guidance from the SEC on FAS 140 on January 8.

We have a lot of work ahead of us; these efforts can succeed only if they are pursued industry wide. I am particularly focused on two important steps.

First, I am eager to see the ASF framework and Project Lifeline adopted by all servicers. If the ASF plan works the way it is intended to subprime borrowers who have made payments on-time at the initial rate and who want to stay in their homes but can't afford the higher rate should be fast-tracked into a modification – which in many cases will be an interest rate freeze of at least five years – or be fast-tracked into an affordable refinancing. Through Project Lifeline, those borrowers facing immediate foreclosure may be able to find individual solutions.

Second, I will be working closely with the HOPE NOW alliance on their plans for reporting progress. It is critical that they release monthly information, within 30 days of the end of the month, so that we can monitor progress and adapt as needed. Industry will be updating us throughout the month.

As I have said many times, the HOPE NOW alliance is an evolving effort. As our economy works through this difficult period, we will look for additional opportunities to try to avoid preventable foreclosures. However, none of these efforts are a silver bullet that will undo the excesses of the past years, nor are they designed to bail out real estate speculators or those who committed fraud during the mortgage process. These efforts are to help American families who both want to and can, through a loan modification or re-financing, stay in their homes.

I believe that our economy will continue to grow, although at a slower pace in the coming quarters, and that it remains fundamentally diverse and resilient.

I congratulate the HOPE NOW alliance for your flexibility and your hard work. You are helping our economy and our families, and you are also demonstrating the very resiliency which I spoke of a moment ago. Thank you.

-30-

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February 12, 2008
HP-821

Treasury Targets Medellin Drug Lord

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated Medellin-based narcotics trafficker Carlos Mario Jimenez Naranjo (a.k.a. "Macaco") as a Specially Designated Narcotics Trafficker pursuant to Executive Order 12978. OFAC also targeted seven companies and seven individuals that comprise Jimenez Naranjo's financial network.

"Jimenez Naranjo is among the most dangerous Colombian narcotics traffickers today," said OFAC Director Adam J. Szubin. "Today's designation serves notice to Macaco and his associates that the United States is committed to disrupting their network of illicitly-obtained assets in Medellin and elsewhere."

Carlos Mario Jimenez Naranjo has been indicted on federal drug trafficking charges in the U.S. District Court for the District of Columbia in 2005 and in the Southern District of Florida in 2007. He is in Colombian custody awaiting extradition to the United States. OFAC sanctions investigators worked closely with the Drug Enforcement Administration (DEA) on this investigation and also received key support from the Federal Bureau of Investigation (FBI).

Among the individuals designated today were Rosa Edelmira Luna Cordoba, the wife of Carlos Mario Jimenez Naranjo, and Marco Julio Londono Vasquez. Luna Cordoba and Londono Vasquez act as front persons through their roles as owners and managers for companies that are owned or controlled by Jimenez Naranjo. Luna Cordoba and Londono Vasquez were also indicted on federal drug trafficking charges in the Southern District of Florida in 2007 along with Jimenez Naranjo.

The seven companies designated today are located in or around Medellin, Colombia. Among these companies are: *Inversiones Licom Ltda.*, which does business as *Restaurante Angus Brangus* in Medellin; *Tejar la Mojosa S.A.*, a ceramic products company that operates in the Colombian state of Antioquia; and the cattle companies *Administradora Ganadera el 45 Ltda.* and *Ganaderia Luna Hermanos Ltda.*, both located in Medellin.

This designation is part of the ongoing interagency effort by the Departments of the Treasury, Justice, State and Homeland Security to implement Executive Order 12978 of October 21, 1995, which applies financial sanctions against Colombia's drug cartels. Today's designation action freezes any assets the designees may have that are subject to U.S. jurisdiction and prohibits all financial and commercial transactions by any U.S. person with the designated companies and individuals.

A detailed look at the program against Colombian drug organizations is provided in OFAC's March 2007 *Impact Report on Economic Sanctions Against Colombian Drug Cartels.*

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

REPORTS

- chart

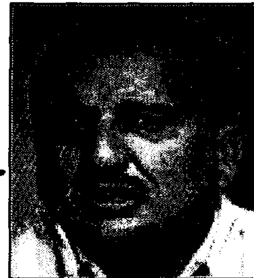
JIMENEZ NARANJO Financial Network

February 2008

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

Specially Designated Narcotics Traffickers

"Macaco"

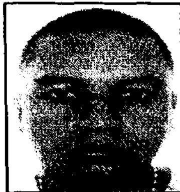


Indicted in the U.S. on Drug Trafficking Charges in 2005 and 2007

In the Custody of Colombian Authorities

Carlos Mario JIMENEZ NARANJO
CC 71671990 (Colombia); DOB 26 Feb 1966

Key Associates of "Macaco"



Andres Felipe CARRILLO LUNA
CC 1037572288 (Colombia)
DOB 25 May 1986

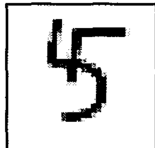
Paula Andrea CARRILLO LUNA
CC 32244809 (Colombia)
DOB 25 Dec 1983

Roberto JIMENEZ NARANJO
CC 18502967 (Colombia)
DOB 18 Apr 1963

Marco Julio LONDONO VASQUEZ
CC 15345634 (Colombia)
DOB 04 Dec 1955

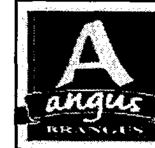
Rosa Edelmira LUNA CORDOBA
CC 41101742 (Colombia)
DOB 18 Sep 1960

Companies Associated with "Macaco"



ADMINISTRADORA GANADERA EL 45 LTDA.
Medellin, Colombia
NIT# 811038291-3

GANADERIA LUNA HERMANOS LTDA.
Medellin, Colombia
NIT# 811045931-8



INVERSIONES LICOM LTDA.
(a.k.a. RESTAURANTE ANGUS BRANGUS)
Medellin, Colombia
NIT# 811038211-4

TEJAR LA MOJOSA S.A.
Caceres, Antioquia, Colombia
Caucasia, Antioquia, Colombia
NIT# 900110438-9

CASA DEL GANADERO S.A.
Medellin, Colombia
NIT# 811034345-4

INVERSIONES EL MOMENTO S.A.
Medellin, Colombia
NIT# 811030776-7

SOCIEDAD MINERA GRIFOS S.A.
Medellin, Colombia
NIT# 811033869-7

IMPACT REPORT

MARCH 2007

OFFICE OF FOREIGN ASSETS CONTROL

IMPACT REPORT

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

1. Some of these programs are no longer in effect but still require some residual administrative and enforcement activities.

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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ACRONYMS USED IN THIS IMPACT REPORT

a.k.a.	Also known as
AUC	United Self Defense Forces of Colombia (*Autodefenses Unidas de Colombia*)
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

ACRONYMS OF BUSINESS TYPES

A.V.V.	Aruba Vrijgestelde Vennootschap *(Aruban Exempt Corporation)*
Cia.	Compañia *(Company)*
E.U.	Empresa Unipersonal *(Sole Proprietorship)*
Ltda.	Limitada *(Limited)*
S. de H.	Sociedad de Hecho (*De Facto Partnership*)
S. en C.	Sociedad en Comandita (*Limited Partnership*)
S.A.	Sociedad Anónima *(Corporation)*
S.A. de C.V.	Sociedad Anónima de Capital Variable (*Variable Capital Company*)
S.C.A.	Sociedad en Comandita por Acciones (*Limited Partnership by Shares*)
S.C.S.	Sociedad en Comandita Simple (*Limited Partnership*)

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]

SDNT LIST

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 SANTACRUZ LONDOÑO, and Helmer HERRERA BUITRAGO. Beginning in 1998, OFAC expanded the SDNT list beyond the Cali drug cartel and it

EXAMPLE OF SDNT LISTING

JAAR JASSIR, Ricardo (a.k.a. JAAR JACIR, Ricardo); c/o ALMACAES S.A., Bogota, Colombia; c/o CONFECCIONES LORD S.A., Barranquilla, Atlantico, Colombia; c/o CORPORACION DE ALMACENES POR DEPARTAMENTOS S.A., Bogota, Colombia; c/o GIMBER INVESTING CORPORATION, Virgin Islands, British; c/o G.L.G. S.A., Bogota, Colombia; c/o LOWIN S.A., Bogota, Colombia; c/o JACARIA FLORIDA INC., Miami, FL; c/o 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 Dadeland 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 supermarket 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.

CRITERIA

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.

BLOCKING

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.

LICENSING AUTHORITY

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.

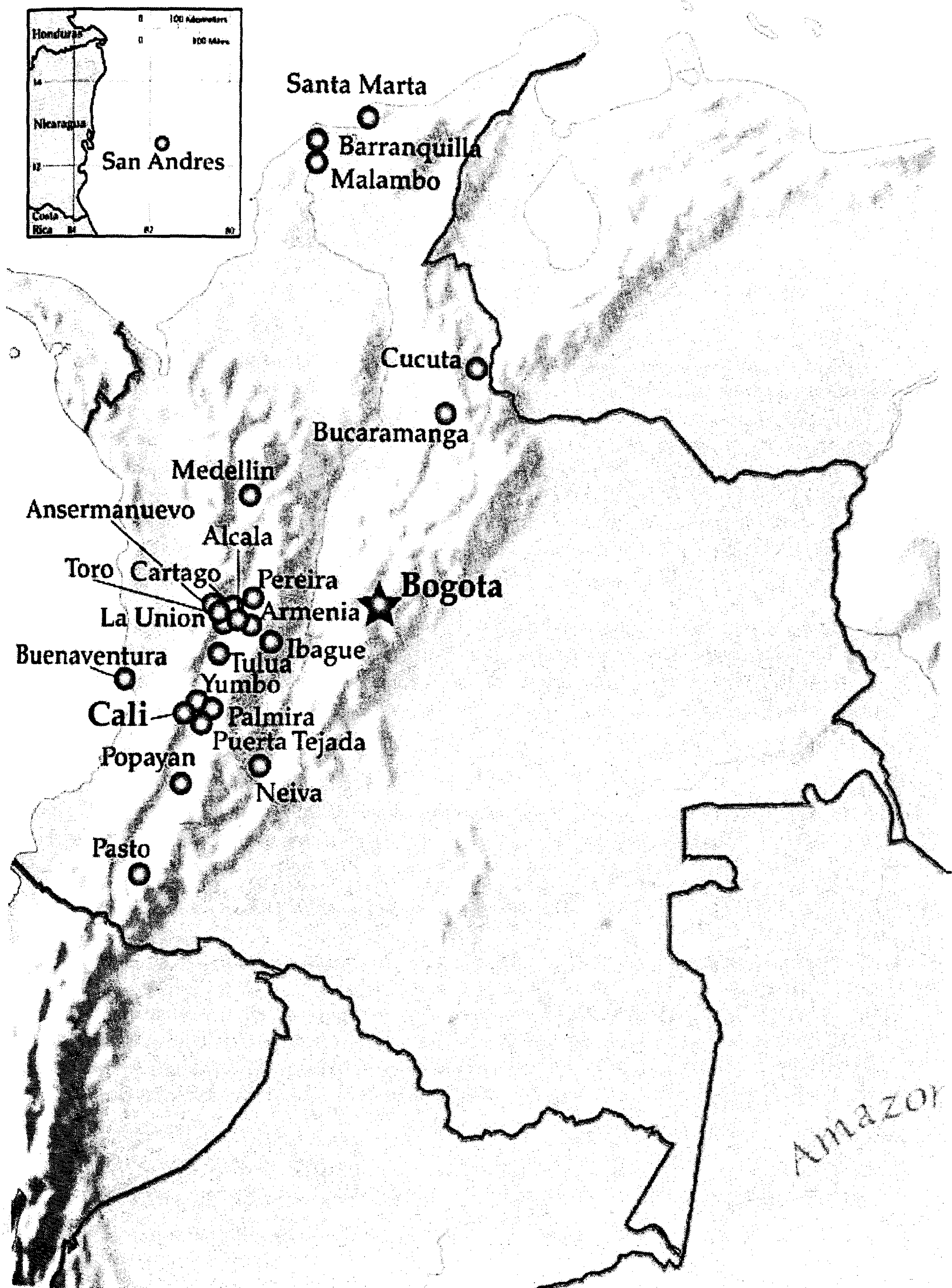
LEGAL CHALLENGES

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).

PENALTIES

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.*

IMPACT OF THE COLOMBIAN DRUG CARTELS ECONOMIC SANCTIONS PROGRAM

"[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

4. See text box at the end of this section that identifies the Colombian drug cartels and the organizations that comprise them.
5. Assets within the United States include those in the possession or control of U.S. persons, including foreign branches.

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.

LEGAL CHALLENGES IN COLOMBIA

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]

> ***"[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.

Cali Cartel – The RODRIGUEZ OREJUELA 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

6. In December 2002, Law 793 replaced the existing 1996 legislation (Law 333) that governed asset forfeiture in Colombia. Law 793 allows Colombian authorities to better enforce asset forfeiture actions in Colombia against the illicit assets of Colombian drug cartel leaders. The Colombian Government has moved swiftly to pursue more complex asset forfeiture investigations against the Cali and North Valle drug cartels pursuant to Law 793.

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.

Cali Cartel – the VALENCIA TRUJILLO Organization

> ***"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

7. The $2.1 billion figure is derived from the estimated worth of the 200,000 kilograms of cocaine that Gilberto and Miguel RODRIGUEZ OREJUELA admitted they imported into the United States and/or distributed in the United States since 1990.
8. See text box, "Prepared Remarks on the Acceptance of Plea Agreements and 30-year Sentences by the RODRIGUEZ OREJUELA Brothers," by Adam Szubin, Director Office of Foreign Assets Control.
9. These companies include an industrial paper company, a real estate management company, a financial loan company, and a maritime agency. See the section on the VALENCIA TRUJILLO organization for further details.

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.

North Valle Cartel – Examples of the RENTERIA MANTILLA, GRAJALES LEMOS, PUERTA PARRA and HERNANDEZ ZEA, and VARELA Organizations

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.

IMPACTS AND IMPLICATIONS OF THE SDNT COLOMBIA ECONOMIC SANCTIONS PROGRAM

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:

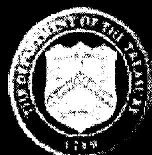
Asset Blocking in the United States. Any money, assets, or property of a designated person within U.S. jurisdiction are blocked and any subsequent transactions which are caught are blocked, depriving the designee use of these assets.

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.



OFAC

Office of Foreign Assets Control

Official Comments
09/26/2006

Prepared Remarks on the Acceptance of Plea Agreements and 30-year Sentences by the RODRIGUEZ OREJUELA Brothers

- Prepared Remarks by Adam Szubin, Director Office of Foreign Assets Control.

September 26, 2006

Washington, DC

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.

OVERVIEW OF COLOMBIA'S DRUG CARTELS AND DRUG CARTEL GROUPS

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

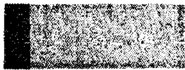
The Cali drug cartel is based in the city of Cali, Colombia. Led by Gilberto RODRIGUEZ OREJUELA, Miguel RODRIGUEZ OREJUELA, Jose SANTACRUZ LONDOÑO, and Helmer HERRERA BUITRAGO, the Cali drug cartel orchestrated the manufacture of hundreds of tons of cocaine in Colombia in the early 1980s, which were 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
- Joaquin 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:

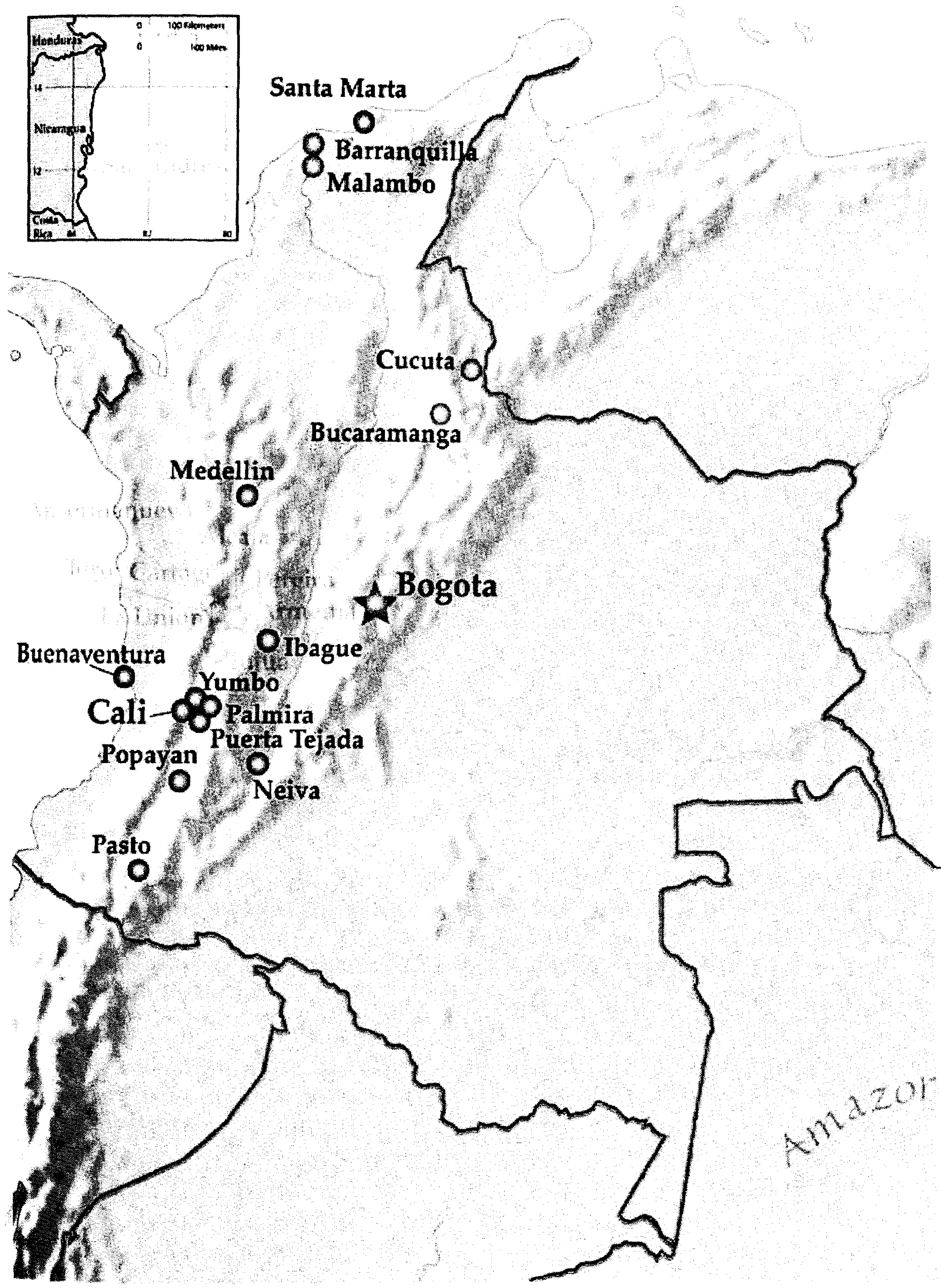
10. Until the early 1990s, U.S. and Colombian authorities had focused their efforts on the violent Medellin drug cartel. By the end of 1993, the heads of the Medellin drug cartel were either dead or in jail—Medellin Cartel kingpin Pablo Escobar Gaviria was killed in a shootout with Colombian police in late 1993, the Ochoa Vasquez brothers had turned themselves in to Colombian authorities, Gonzalo Rodriguez Gacha had been killed (1989) and their financial empires were either destroyed, seized or in complete disarray. The focus on the Medellin drug cartel allowed the Cali drug cartel to quietly grow in power and influence and establish the financial networks that would eventually attract the attention of U.S. authorities prior to 1995.



- 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.*

CALI CARTEL

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.

RODRIGUEZ OREJUELA ORGANIZATION

Background:

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.

EXCERPT FROM THE SOUTHERN DISTRICT OF NEW YORK INDICTMENT

"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."

Related Impact:

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 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.

SECTION 2

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.

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. Pleaded 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. Pleaded 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

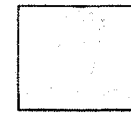
Juan Carlos
MUÑOZ RODRÍGUEZ
Designation Date: 21-Oct-1995
Relationship: Nephew
Cedula: 16703148
DOB: 25-Sept-1964

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

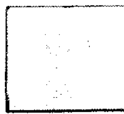
Andre Gilberto
RODRIGUEZ RAMIREZ
Designation Date: 6-Feb-2003
Relationship: Son of Gilberto
Cedula: 16798937
DOB: 22-Mar-1972

KEY BUSINESS ASSOCIATES

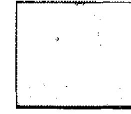
Fernando Antonio
GUTIERREZ CANCINO
Designation Date: 21-Oct-1995
Cedula: 6089071
DOB: 4-Dec-1941



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

- **21 Oct., 1995** – The President names Miguel and Gilberto RODRIGUEZ OREJUELA in the Annex to Executive Order 12978
- **Mar., 1996** – OFAC designates companies associated with the RODRIGUEZ OREJUELA brothers, including the Colombian drugstore chain DROGAS LA REBAJA
- **Mar., 1996** – OFAC designates companies associated with the RODRIGUEZ OREJUELA brothers, including MONAFCOMERCIO Y REPRESENTACIONES in Quito, Ecuador
- **Jul., 1996** – DROGAS LA REBAJA's 4,000 employees ostensibly purchase the company and transform it into a worker's cooperative named COPSERVIR
- **Apr., 1997** – OFAC names COPSERVIR along with six related companies as SDNTs
- **Apr., 1998** – COPSERVIR files a lawsuit in U.S. District Court against the U.S. Government regarding its designation as an SDNT
- **Mar., 1999** – U.S. District Court dismisses COPSERVIR's lawsuit against the U.S. Government
- **Jun., 1999** – OFAC designates six companies associated with COPSERVIR, including the pharmaceutical cooperative ADMACOOP
- **Feb., 2000** – OFAC designates four companies associated with COPSERVIR including DROMARCA
- **Mar., 2000** – U.S. Courts uphold U.S. District Court's decision to dismiss COPSERVIR's complaint
- **Dec., 2000** – OFAC designates three companies associated with COPSERVIR, including the drugstore chain's credit card company CREDIREBAJA
- **Mar., 2001** – 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 Neiva S.A. (a.k.a. Drogas La Rebaja Neiva 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 Myramar [illegible] S.A.
- Farmatodo S.A.
- Laboratorios Blaimar de Colombia S.A. (a.k.a. Blaimar, a.k.a. Cosmetecos S.A.)
- Laboratorios Genericos Veterinarios de Colombia S.A. (a.k.a. Gen Vet S.A.)
- Laboratorios Kressfor de Colombia S.A. (a.k.a. Kressfor)
- Penta Pharma de Colombia S.A. (f.k.a. Pentacoop Ltda.)
- Plasticos Condor Ltda.
- Rofilap Comercio y Representaciones S.A.
- Servicios Sociales Ltda.

Located in: Barranquilla, Bogota, Bucaramanga, Cali, Neiva, Pasto, Pereira, and Quito, Ecuador

1997

- Copservir Ltda. (a.k.a. Cooperativa Multiactiva de Empleados de Distribuidores de Drogas Coopservir Ltda.)
- [illegible] (a.k.a. Cooperativa Multiactiva de Empleados de [illegible]) [illegible] Ltda. [illegible]
- [illegible] S.A. (a.k.a. [illegible] de Cosmeticos S.A., f.k.a. Laboratorios [illegible] de Colombia S.A.)
- [illegible] (a.k.a. Cooperativa de [illegible] Populares)
- [illegible] (a.k.a. Cooperativa Multiactiva de Comercializacion y Servicios [illegible])
- Pentacoop Ltda. (f.k.a. Penta Pharma de Colombia S.A.)

Located in: Bogota, Cali

1999 - 2000

CREDIREBAJA

- Credirebaja S.A.
- Admacoop (a.k.a. Cooperativa Multiactiva de Administracion y Manejo Admacoop)
- Dromarca y Cia. S.C.S.
- Patentes Marcas y Registros S.A. (a.k.a. [illegible] S.A.)
- [illegible] S.A. (f.k.a. [illegible] S.A.)
- Comercializadora [illegible] S.A.
- [illegible]farma S.A.
- Distribuidora Agropecuaria Colombiana S.A. (a.k.a. Diagrocol S.A.)
- Farmahogar (a.k.a. Farmahogar Copservir 19, Drogueria Farmahogar)
- Glajan S.A.
- Inversiones Bombay S.A. (a.k.a. Agroveterinaria El Torol)
- Polempaques Ltda.
- Servicios Farmaceuticos Servifar S.A. (a.k.a. Servifar S.A.)

Located in: Bogota, Cali

Impact on 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, William 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.

Feb.-Mar., 2003 — OFAC designates a financial network of 46 new front companies associated with the RODRIGUEZ OREJUELA brothers and COPSERVIR

May, 2003 — Colombian Constitutional Court rules in favor of the six Colombian banks, allowing them to continue to deny services to COPSERVIR

Oct., 2003 — OFAC designates a widespread network of 73 companies from Colombia and five neighboring Latin American countries that are directly involved in the DROGAS LA REBAJA pharmaceutical empire

Dec., 2003 — 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

Mar., 2004 — 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

Sept., 2004 — OFAC designates 73 front companies in Colombia associated with COPSERVIR. Colombian Government seizes the drugstore chain DROGAS LA REBAJA following asset forfeiture investigation.

Nov., 2004 — OFAC issues a specific licensing policy allowing U.S. suppliers to engage in certain transactions with COPSERVIR, FARMACOOP, and COSMEPOP

Dec., 2004 — The Colombian Government extradites Gilberto RODRIGUEZ OREJUELA to the United States

Mar., 2005 — The Colombian Government extradites Miguel RODRIGUEZ OREJUELA to the United States

May, 2006 — Colombian Government seizes five companies following asset forfeiture investigation, including CREDIREBAJA

Sept. - Nov., 2006 — 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 Cosmeticos 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 Digio Ltda.
- Comercializadora Intertel S.A.
- Contactel Comunicaciones S.A.
- Coopcrear (a.k.a. Cooperativa de Trabajo Asociado de Colombia)
- Cooperativa Mercantil Colombiana Coomercol
- Cooperativa Multiactiva de Colombia Fomentamos (a.k.a. Fomentamos)
- Crasesorias 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.
- Distriexport Comercializadora Internacional S.A. (a.k.a. Distriexport 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.)
- Genericos Especiales S.A. (a.k.a. Genes S.A.)
- Inmobiliaria Imtasa 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 Cosmeticos Y Distribuciones S.A.
- Materias Primas Y Suministros S.A. (a.k.a. Matsum S.A.)
- Productos Gaio Y Cia. Ltda.
- Prosalud Y Bienestar S.A.
- Rentar Inmobiliaria S.A.
- Representaciones Y Distribuciones Huertas Y Asociados S.A.
- Seguvira 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.)

Located in: Bogota, Cali, Cucuta, Neiva

October, 2003

- Agro Mascotas S.A. (a.k.a. Agrotodo)
- C.A.V.I. Corporation Ltda.
- Chamartin S.A.
- Comercializadora de Lineas Pharmaceuticas S.A.
- Comercializadora de Productos Farmaceuticos Ltda.
- Cooperativa Mercantil Del Sur Ltda. (a.k.a. Coopmersur, a.k.a. Coomersur)
- Cooperativa Multiactiva de Comerc. Droguista Y Farmaceutica Drofarco (a.k.a. Drofarco)
- Cooperativa Multiactiva Distribuidora de Santander Coopdisan (a.k.a. Coopsidan)
- Distribuidora del Valle E.U.
- Farmatel 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 Droblam S.A. (a.k.a. Droblam S.A.)
- Lemofar Ltda. (a.k.a. LMF Ltda.)
- Macrofarma 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 Pharmacya Ltda.
- World Trade Ltda.

Located in: Barranquilla, Bogota, Bucaramanga, Cali, Cucuta, Ibague, Pasto

Offshore Companies

- C.A. V.I. Corporation
- Colfarma 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)
- Coomulcosta (a.k.a. Cooperativa Multiactiva de la Costa Coomulcosta Ltda.)
- Arca Distribuciones Ltda.
- Arias Espinosa Aries S.A. (a.k.a. Aries S.A.)
- Comudrogas Ltda. (a.k.a. Cooperativa Multiservicios de Droguistas Ltda.)
- Coopifarma (a.k.a. Cooperativa Multiactiva de Comercializacion y Servicios de Colombia)
- Disfogen Ltda. (a.k.a. Distribuidora de Medicamentos Disfogen Ltda.)
- ExciPharma S.A. (a.k.a. Excipientes Farmaceuticos ExciPharma S.A.)
- Farmalider S.A.
- Farmavision Ltda. (a.k.a. Cooperativa Multiactiva de Distribucion Farmavision Ltda.)
- Farmedis Ltda.
- Glamix Ltda.
- Inversiones Ase Ltda.
- JYG Asesores Ltda.
- Litopharma (a.k.a. Cooperativa Multiactiva del Litoral)
- Megapharma Ltda. (Cooperativa Multiactiva de Distribucion MegaPharma Ltda.; ComerCoop)
- Segecol Ltda.
- Servicios Logisticos 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.
- Villaro Ltda.

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

Cali Drug Cartel: Gilberto Jose & Miguel Angel
RODRIGUEZ OREJUELA

TYPE OF INDUSTRY

REGION	Agro-Industrial	Construction	Consulting	Investment
Bogota	• Sharper S.A.[7]	• Construcciones Avendano Gutierrez y Cia. Ltda. (a.k.a. Conage Ltda.)[8] • 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.[7] • Fiduser Ltda.[8] • Inversiones Geele Ltda. (f.k.a. Ganadera Caqueta Ltda.)[illegible] • Valores Corporativos S.A. (a.k.a. Valorcorp S.A.)[4]
Cali	• Agricola Humyami Ltda.[3] • Comercializadora de Carnes del Pacifico Ltda.[3] • Export Cafe Ltda.[3]	• Andina de Construcciones S.A. (n.k.a. Interamericana de Construcciones S.A.)[3] • Constructora Central del Valle Ltda. (a.k.a. C.C.V. Ltda.)[6] • Constructora Gopeva Ltda.[3] • Constructora Tremi Ltda.[3] • Interamericana de Construcciones S.A. (f.k.a. Andina de Construcciones S.A.)[4] • Inversiones y Construcciones ABC S.A. (f.k.a. Inversiones Camino Real S.A.)[7] • Inversiones y Construcciones Atlas Ltda. (f.k.a. Inversiones Mompax Ltda.; f.k.a. Mompax Ltda.)[5] • Inversiones y Construcciones Cosmovalle Ltda. (f.k.a. Inversiones y Distribuciones Compax Ltda; a.k.a. Compax Ltda.)[4] • Reparaciones y Construcciones Ltda. (a.k.a. Reconstruye Ltda.)[7] • Valores Mobiliarios de Occidente S.A.[3]	• 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.[3] • Inversiones Camino Real S.A.[3] • Inversiones Capital Ltda.[14] • Inversiones Jaer Ltda.[6] • Inversiones La Sexta Ltda.[3] • Inversiones Miguel Rodriguez e Hijo[1] • Inversiones Mompax Ltda. (a.k.a. Mompax Ltda)[3] • 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.[3] • 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.)[3] • M. Rodriguez O. y Cia S. en C.[3] • Mariela de Rodriguez Y Cia S. en C.[3] • 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[13]
Florida (U.S.)				• Ash Trading, Inc.[13] • Internacional de Divisas S.A., LLC [11] • Sepulveda-Iragerri, 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.

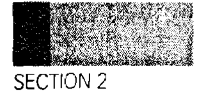
TYPE OF INDUSTRY

Radio/Sport	Real Estate	Other	REGION
			Bogota
		• Consultoria Santafe E.U.[10] • Servicios de la Sabana E.U. (a.k.a. Serbana E.U.)[10]	
			Cali
• Color 89.5 FM Stereo (a.k.a. Radio Unidas FM S.A.)[3] • Corporacion Deportiva America (a.k.a. Club Deportiva America, Club America de Cali)[7] • Creaciones Deportivas Willington Ltda.[3] • Farallones Stereo 91.5 FM (a.k.a. Radio Unidas FM S.A.)[3] • Radio Unidas FM S.A. (a.k.a. Color 89.5 FM Stereo and Farallones Stereo 91.5 FM)[3] • 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]		• Alero S.A.[14] • Aspoir 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)[8] • Comunicacion Visual Ltda. (a.k.a. Comvis Ltda.)[9] • 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. Gracadal S.A.; n.k.a. Dism)[1] • Fundacion Vivir Mejor (a.k.a. F.V.M.)[13] • 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 Uno[3] • Media Marketing E.U.[10] • Occidental Comunicaciones Ltda.[8] • Parque Industrial Las Delicias Ltda.[6] • Producciones Carnaval del Norte y Compania Limitada[8] • Recitec Ltda.[8] • Representaciones Zatza Ltda.[14] • Soraya y Haydee Ltda.[9] • Supertiendas La Rebaja (a.k.a. Distribuidora Migil Cali S.A.)[2] • Tobogon[3]	
			Outside of Colombia
			Bahamas
			British Virgin Islands
			Florida (U.S.)
			Panama
	• 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]	• 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]	Spain

RODRIGUEZ OREJUELA Business Logos

DROGAS LA REBAJA

SANTACRUZ LONDOÑO ORGANIZATION



Background:

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.

SECTION 2

Related Impact:

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:

- 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.

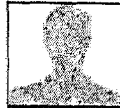
SANTACRUZ LONDONO ORGANIZATION

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

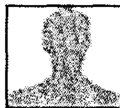


Amparo
CASTRO DE SANTACRUZ
Designation Date: 21-Oct-1995
Relationship: Wife
Cedula: 38983611
DOB: 13-Jan-1948

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

Cali Drug Cartel: Jose
SANTACRUZ LONDOÑO

TYPE OF INDUSTRY

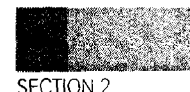
BY REGION

Region	Agro-Industrial	Construction	Investment/Real Estate	Other Commercial
Bogota				
Bogota			• Aureal Inmobiliaria Ltda.[1]	
Cali				
Cali	• Caviedes 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 Negoagricola 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.)[2] • Prevencion y Analysis 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

HERRERA BUITRAGO ORGANIZATION



Background:

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.

Related Impact:

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:

- 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.

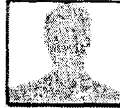
HERRERA BUITRAGO ORGANIZATION

DECEASED

Helmer
HERRERA BUITRAGO

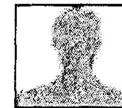
Deceased: 1998 (Murdered in prison)
Aliases: "Pacho"
Date of Designation: 21-Oct-1995
POB: Colombia
DOB: 24-Aug-1951
Cedula Number: 16247821
Passport Number: J287011
Indictments: Subject of two federal indictments for drug trafficking in the Eastern District of New York; 1995 RICO indictment of Cali 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

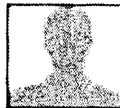


Luz Mery
BUITRAGO DE HERRERA
Designation Date: 5-Mar-1996
Relationship: Mother
Cedula: 29641219
DOB: 24-Aug-1924

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

Nubia
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
MONTOYA MARTINEZ
Designation Date: 15-Jan-1997
Cedula: 16801475
DOB: 11-Oct-1966

Ricardo Jose
LINARES 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

Cali Drug Cartel: Helmer
HERRERA BUITRAGO

TYPE OF INDUSTRY

BY REGION

Region	Agro-Industrial	Construction	Investment	Retail/Other
Central Colombia				
Pereira				• Colombiana de Cerdos Ltda. (a.k.a. Colcerdos Ltda.)[5] • Comercializadora de Carnes Ltda. (a.k.a. Comecarnes Ltda.)[6] • Matadero Metropolitano Ltda.[5]
Valle del Cauca				
Palmira	• Valle de Oro S.A.[2]			
Cali				
Cali	• Agropecuaria Betania Ltda. (n.k.a. Valladares Ltda.)[1] • Agropecuaria La Robleda 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 Reforestadora Herrebe Ltda.)[1] • Inversiones y Construcciones Valle S.A. (a.k.a. Incovalle S.A.)[1] • Manaure S.A. (f.k.a. Agropecuaria La Robleda S.A.)[3] • Mercavicola S.A.[2] • Procesadora de Pollos Superior S.A. (f.k.a. Comercializadora Internacional Valle de Oro S.A.)[2] • Prohuevo de Colombia Ltda.[2] • Valladares Ltda (f.k.a. Agropecuaria Betania Ltda.)[3]	• Concretos Cali S.A.[1] • Constructora Dimisa S.A.[1] • Constructora El Nogal S.A. (f.k.a. Construexito S.A., Cone S.A.)[5] • Construexito 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.)[5] • Sociedad Constructora y Administradora del Valle Ltda. (a.k.a. Socovalle Ltda.)[1]	• Adminstracion Inmobiliaria Bolivar S.A.[1] • Alkala Asociados S.A. (f.k.a. Invheresa S.A.)[5] • Compañia Administradora de Vivienda S.A. (f.k.a. Inversiones Geminis S.A.)[5] • 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 Guevara y Cia. S.C.S.[2] • Inversiones El Gran Crisol 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. Inversiones 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 Comercializadora 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 Communicaciones Ltda. (a.k.a. Vallecom Ltda.)[1] • Viajes Mercurio Ltda.[1]
Bogota				
Bogota		• Constructora Altos del Retiro Ltda.[2]	• Inmobiliaria Gales Ltda.[2]	• 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

VALENCIA TRUJILLO ORGANIZATION

Background:

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.

Related Impact:

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:

SECTION 2

- *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.

VALENCIA TRUJILLO ORGANIZATION: EXAMPLES OF FAMILY MEMBERS INVOLVEMENT

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.

KEY FAMILY MEMBERS

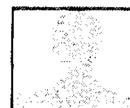
Agueda
VALENCIA TRUJILLO
Designation Date: 27-Mar-2003
Relationship: Sister
Cedula: 38943524
DOB: 10-Aug-1959

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



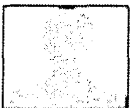
Alvaro
VICTORIA CASTANO
Designation Date: 27-Mar-2003
Relationship: Brother-in-law
Cedula: 14933828

Guillermo
VALENCIA TRUJILLO

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

KEY BUSINESS ASSOCIATES

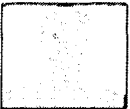
Jose Freddy
MAFLA POLO
Designation Date: 27-Mar-2003
Cedula: 16689735



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

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

Freddy
RIVERA ZAPATA
Designation Date: 27-Mar-2003
Cedula: 16607963



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

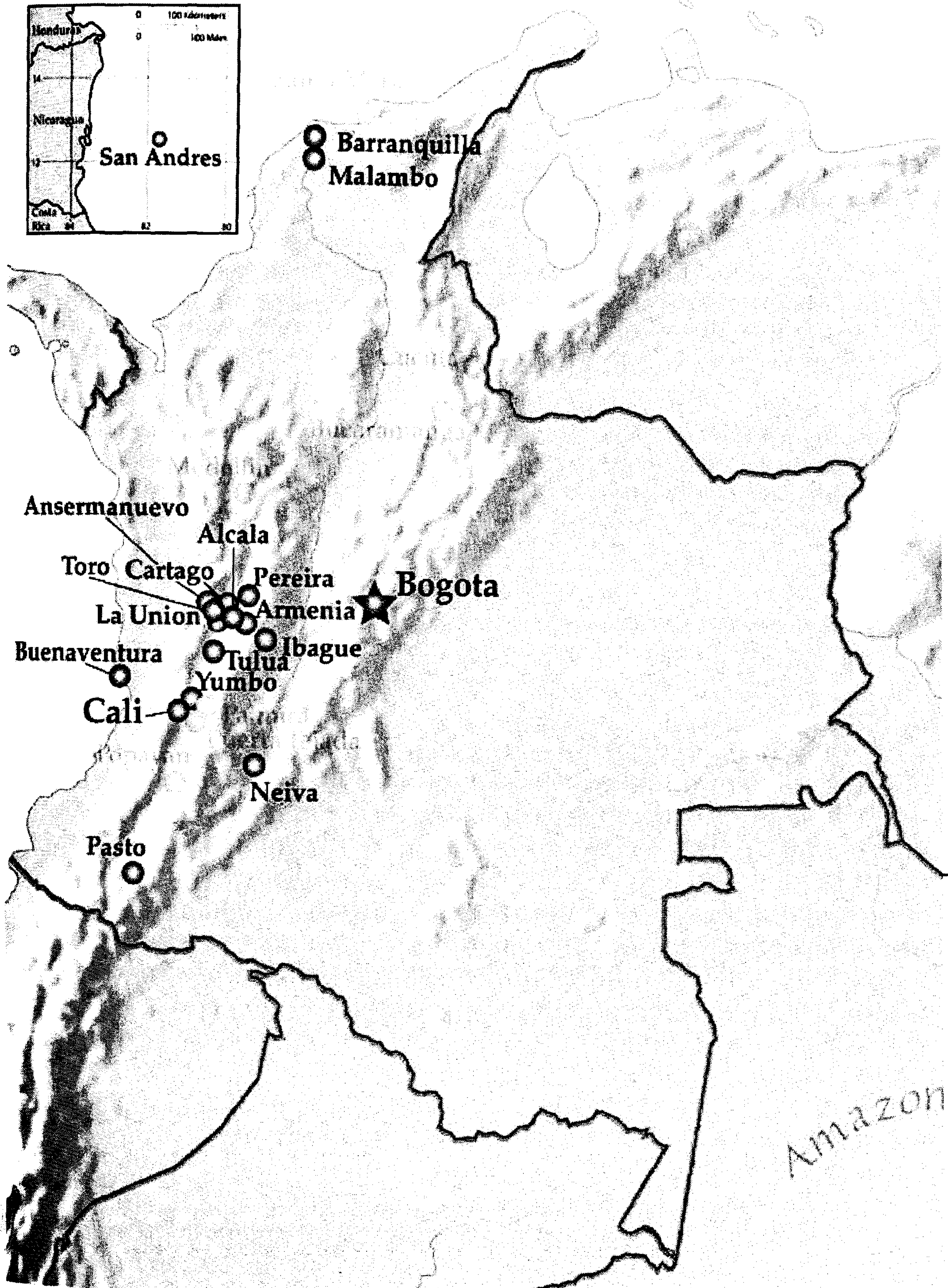
Sonia
AGUILAR BERNAL
Designation Date: 27-Mar-2003
Cedula: 31988264

Cali Drug Cartel: Joaquin Mario & Guillermo
VALENCIA TRUJILLO

TYPE OF INDUSTRY

BY REGION	Agricultural	Financial	Maritime	Paper	Other
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 Mafla 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.*

NORTH VALLE CARTEL

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.

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 *Autodefenses 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.

11. The AUC was also designated by the Department of State as a Foreign Terrorist Organization ("FTO") in 2001, as a Specially Designated Global Terrorist ("SDGT") under E.O. 13224 in 2001, and as a drug kingpin by the President in June 2003 pursuant to the Foreign Narcotics Kingpin Designation Act.

URDINOLA GRAJALES ORGANIZATION

Background:

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.

Related Impact:

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.

- 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.

KEY FAMILY MEMBERS

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

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 BUSINESS ASSOCIATES

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

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

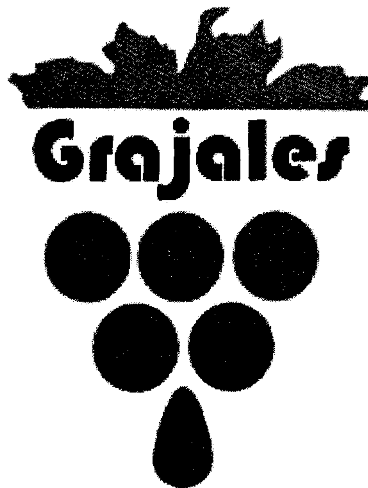
North Valle Drug Cartel: Ivan & Julio Fabio

URDINOLA GRAJALES

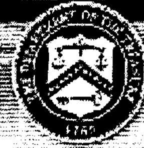
TYPE OF INDUSTRY

BY REGION	Agro-Industrial	Construction	Hotel	Investment
Valle del Cauca				
La Union	• Casa Grajales S.A.[2] • Frutas Exoticas Colombianos S.A. (a.k.a. Frexco S.A.)[2] • Grajales S.A.[2]		• Los Vinedos De Getsemani S.A. (a.k.a. Hotel Lost Vinedos; a.k.a. Valle Lindo Hostal Restaurante)[2]	• Inversiones Aguila Ltda.[2] • 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]
Tulua				• 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



PRESS ROOM



February 13, 2008
HP-822

Opening Statement by Secretary Henry M. Paulson, Jr.
on the President's Fiscal Year 2009 Budget
Before the House Committee on the Budget

Washington, DC-- Chairman Spratt, Congressman Ryan, Members of the Committee: I am pleased to be here to discuss the President's budget for fiscal year 2009. As Treasury Secretary, my highest priority is a strong U.S. economy that will benefit our workers, our families and our businesses. Through a measured approach that balances our nation's needs with our nation's resources, the President's budget supports that priority.

This is especially important now as, after years of unsustainable home price appreciation, the U.S. economy undergoes a significant and necessary housing correction. This correction, combined with high energy prices and capital market turmoil, caused economic growth to slow rather markedly at the end of 2007.

The U.S. economy is diverse and resilient, and our long-term fundamentals are healthy. I believe our economy will continue to grow, although at a slower pace than we have seen in recent years.

Four weeks ago, recognizing the downside risks to our economy and that the short-term cost of doing nothing was too high, President Bush called for an economic growth package to provide a temporary boost to our economy as we weather the housing correction.

The Congress responded with bipartisanship, cooperation and speed to pass an economic growth package that is temporary, broad-based and will get money into our economy quickly. We have demonstrated to the nation and the world that we can come together to address the needs of the American people as we weather the housing downturn.

Today, the President will sign the economic package into law and Treasury is already working to send payments out to more than 130 million Americans. The IRS will manage the current tax filing season and simultaneously prepare to issue these additional payments starting in early May. Payments will be largely completed this summer, putting cash in the hands of millions of Americans at a time when our economy is experiencing slower growth. Together, the payments to individuals and the investment incentives for businesses will help create more than half a million jobs by the end of this year.

In addition to an economic growth plan to help us weather this housing correction, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. That includes encouraging the HOPE NOW alliance's outreach to struggling homeowners. Congress can do its part by finalizing the FHA modernization and GSE regulatory reform bills and by passing legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs.

We continue to monitor capital markets closely and to advocate strong market discipline and robust risk management. Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying policy issues because it is just as important to get the long-term policy right.

While we are in a difficult transition period as markets reassess and re-price risk, I have great confidence in our markets. They have recovered from similar stressful periods in the past, and they will again.

The Administration will also continue to press for long-term economic policies that are in our country's best interest – a pro-growth tax system, entitlement reform and a balanced budget. To that end, the President's budget makes the 2001 and 2003 tax relief permanent, and keeps the federal budget on track for a surplus in 2012.

In the future, as in the past, our long-term economic growth will also be enhanced by supporting international trade, by opening world markets to U.S. goods and services and by keeping our markets open. Congress can help create jobs and economic opportunity by passing the pending Free Trade Agreements with Colombia, Panama and South Korea.

I appreciate the cooperative and bipartisan spirit that has brought the Congress and the Administration together to support our economy, and look forward to that spirit continuing as we work through this period. Thank you.

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PRESS ROOM

February 13, 2008
HP-823

Under Secretary for International Affairs David H. McCormick
Testimony before the Joint Economic Committee

Washington, D.C.-- Chairman Schumer, Vice-Chair Maloney, Ranking Member Saxton, Senator Brownback and Members of the Committee, good afternoon. I very much appreciate the opportunity to appear before you today to discuss sovereign wealth funds. This is a timely hearing on a very important topic. At Treasury, we have been increasingly focused on sovereign wealth funds for more than a year now. I am pleased to be able to share with the Committee some of our views.

History and Context

First, some history: sovereign wealth funds are not new. The oldest of these funds date back to the 1950s in Kuwait and Kiribati. Over the next four decades, their numbers slowly grew. Three of the largest and most respected funds – the Abu Dhabi Investment Authority, Singapore's Government Investment Corporation, and Norway's Government Pension Fund-Global – were founded in 1976, 1981, and 1990, respectively. By the year 2000, there were about 20 sovereign wealth funds worldwide managing total assets of several hundred billion dollars.

Today, what is new is the rapid increase in both the number and size of sovereign wealth funds. Twenty new funds have been created since 2000, more than half of these since 2005, which brings the total number to nearly 40 funds that now manage total assets in a range of $1.9-2.9 trillion. Private sector analysts have projected that sovereign wealth fund assets could grow to $10-15 trillion by 2015. Two trends have contributed to this ongoing growth. The first is sustained high commodity prices. The second is the accumulation of official reserves and the transfers from official reserves to investment funds in non-commodity exporters. Within this group of countries, foreign exchange reserves are now sufficient by all standard metrics of reserve adequacy. For these non-commodity exporters, more flexible exchange rates are often necessary, and Treasury actively pushes for increased flexibility(1).

So what are sovereign wealth funds? At the Department of the Treasury, we have defined them as government investment vehicles funded by foreign exchange assets, which manage those assets separately from official reserves(2). Sovereign wealth funds generally fall into two categories based on the source of the foreign exchange assets:

- Commodity funds are established through commodity exports, either owned or taxed by the government. They serve different purposes, including stabilization of fiscal revenues, intergenerational saving, and balance of payments sterilization. Given the recent extended sharp rise in commodity prices, many funds initially established for fiscal stabilization purposes have evolved into savings funds. In the case of commodity funds, foreign currency typically accrues to the government and does not increase the money supply and create unwanted inflationary pressure.
- Non-commodity funds are typically established through transfers of assets from official foreign exchange reserves. Large balance of payments surpluses have enabled non-commodity exporting countries to transfer "excess" foreign exchange reserves to stand-alone funds. In the case of non-commodity funds, foreign exchange assets often derive from exchange rate intervention, which then increases a country's money supply. Monetary authorities take additional steps to lower the money supply and stave off

inflation by issuing new debt, but there may be a cost associated with this if the cost of the new debt is more than the returns that the government earns on its foreign exchange assets.

In contrast to traditional reserves, which are typically invested for liquidity and safety, sovereign wealth funds seek a higher rate of return and may be invested in a wider range of asset classes. Sovereign wealth fund managers have a higher risk tolerance than their counterparts managing official reserves. They emphasize expected returns over liquidity, and their investments can take the form of stakes in U.S. companies, as has been witnessed in recent months with increased regularity.

However, sovereign wealth fund assets are currently fairly concentrated. By some market estimates, a handful of funds account for the majority of total sovereign wealth fund assets. Roughly two-thirds of sovereign wealth fund assets are commodity fund assets ($1.3-1.9 trillion), while the remaining one-third are non-commodity funds transferred from official reserves ($0.6-1.0 trillion).

To get a better perspective of the relative importance of sovereign wealth funds, it is useful to consider how they measure up against private pools of global capital. Total sovereign wealth fund assets of $1.9-2.9 trillion may be small relative to a $190 trillion stock of global financial assets, or the roughly $62 trillion managed by private institutional investors. But sovereign wealth fund assets are currently larger than the total assets under management by either hedge funds or private equity funds and are set to grow at a much faster pace.

In sum, sovereign wealth funds represent a large and rapidly growing stock of government-controlled assets, invested more aggressively than traditional reserves. Attention to sovereign wealth funds is inevitable given that their rise clearly has implications for the international financial system. Sovereign wealth funds bring benefits to the system but also raise potential concerns.

Benefits

A useful starting point when discussing the benefits of sovereign wealth funds is to stress that the United States remains committed to open investment. On May 10, 2007, President Bush publicly reaffirmed, in his Statement on Open Economies, the U.S. commitment to advancing open economies at home and abroad, including through open investment and trade. Lower trade and investment barriers benefit not only the United States, but also the global economy as a whole. The depth, liquidity and efficiency of our capital markets should continue to make the United States the most attractive country in the world in which to invest.

In 2006, there was a net increase of $2.5 trillion in foreign-owned assets in the United States, while U.S. net international investment abroad increased by $2.2 trillion. International investment in the United States fuels U.S. economic prosperity by creating well-paid jobs, importing new technology and business methods, helping to finance U.S. priorities, and providing healthy competition that fosters innovation, productivity gains, lower prices, and greater variety for consumers. Over five million Americans –
4.6 percent of the U.S. private sector – are employed by foreign-owned firms' U.S. operations. Over 39 percent of these five million jobs at foreign-owned firms are in manufacturing, a sector that accounts for 13 percent of U.S. private sector jobs. These five million jobs pay 25 percent higher compensation on average than jobs at other U.S. firms. Additionally, foreign-owned firms contributed almost six percent of U.S. output and 14 percent of U.S. R&D spending in 2006. Foreign-owned firms re-invested over half of their U.S. income – $71 billion – back into the U.S. economy in 2006. A disproportionate 13 percent of U.S. tax payments and 19 percent of U.S. exports are made by foreign-owned firms. Without international investment, Americans would be faced with painful choices regarding taxes, spending on government programs, and their level of savings and consumption. Foreign investors' economic interests become more dependent on the health of the U.S. economy – giving the investor an incentive to support U.S. economic interests.

As many observers have pointed out, sovereign wealth funds have the potential to

promote financial stability. They are, in principle, long term, stable investors that provide significant capital to the system. They are typically not highly leveraged and cannot be forced by capital requirements or investor withdrawals to liquidate positions rapidly. Sovereign wealth funds, as public sector entities, should have an interest in and a responsibility for financial market stability.

Potential Concerns

Yet, sovereign wealth funds also raise potential concerns. Primary among them is a risk that sovereign wealth funds could provoke a new wave of investment protectionism, which would be very harmful to the U.S. and global economies. Protectionist sentiment could be partially based on a lack of information and understanding of sovereign wealth funds, in part due to limited transparency and clear communication on the part of the funds themselves. Concerns about the cross-border activities of state-owned enterprises may also at times be misdirected at sovereign wealth funds as a group. Better information and understanding on both sides of the investment relationship are needed.

Were protectionist pressures to lead to greater restrictions on international investment, this would weaken the United States. The United States could lose out to other countries in the competition for international investment and the benefits it brings. U.S. businesses' worldwide operations could suffer. The United States is the world's leading foreign investor. If the United States imposed new restrictions, other countries could impose restrictions on U.S. investors, jeopardizing the benefits generated in the United States by U.S. businesses that operate globally. Protectionism could raise questions about whether we have faith in the dynamism and productivity of the U.S. economy. Foreigners invest in the United States because they have faith in our future and believe our economy will provide them a good return. The United States has long welcomed international investment – and has used this capital to create new U.S.-owned businesses, expand existing businesses, and grow our economy. Protectionism could also damage the U.S. relationship with major allies such as Western Europe, Canada and Japan, which account for 90 percent of international investment in the U.S.

Second, transactions involving investment by sovereign wealth funds, as with other types of foreign investment, may raise legitimate national security concerns. The Committee on Foreign Investment in the United States (CFIUS), which is chaired by Treasury, conducts robust reviews of certain investments that could result in foreign control of a U.S. business to identify and resolve any genuine national security concerns. The Foreign Investment and National Security Act (FINSA) became effective on October 24, 2007, and strengthened the CFIUS process. CFIUS is able to review investments from sovereign wealth funds, just as it would other foreign government-controlled investments, and it has and will continue to exercise this authority to ensure national security.

As we take our work forward on sovereign wealth funds, Treasury is also considering non-national security issues related to potential distortions from a larger role of foreign governments in markets. For example, through inefficient allocation of capital, perceived unfair competition with private firms, or the pursuit of broader strategic rather than strictly economic return-oriented investments, sovereign wealth funds could potentially distort markets. Clearly, both sovereign wealth funds and the countries in which they invest will be best served if investment decisions are made solely on commercial grounds.

Finally, sovereign wealth funds may raise concerns related to financial stability. Sovereign wealth funds can represent large, concentrated, and often non-transparent positions in certain markets and asset classes. Actual shifts in their asset allocations can cause market volatility. In fact, even perceived shifts or rumors can cause volatility as the market reacts to what it perceives sovereign wealth funds to be doing.

Policy Response

Treasury has taken a number of steps to help ensure that the United States can

continue to benefit from open investment while addressing these potential concerns.

First, we are aggressively implementing reforms that strengthen the CFIUS process, reflected in FINSA and Executive Order 11858, issued by the President on January 23. We are proceeding steadily through a vigorous drafting process for new regulations which will become effective later this Spring following public notice and comment. One of the reforms codified by FINSA, which we have already implemented, is an elevated level of accountability within CFIUS for review of foreign government-controlled transactions. I want to be clear that CFIUS reviews the investment transactions of sovereign wealth funds, based on the consideration of genuine national security concerns, just as it would for any other foreign government-controlled investment. FINSA protects our national security while keeping investment barriers low and reaffirming investor confidence and the longstanding U.S. open investment policy.

Second, we have proposed that the international community collaborate on the development of a multilateral framework for best practices. The International Monetary Fund, with support from the World Bank, should develop best practices for sovereign wealth funds, building on existing best practices for foreign exchange reserve management. These would provide guidance to new funds on how to structure themselves, reduce any potential systemic risk, and help demonstrate to critics that sovereign wealth funds can be responsible, constructive participants in the international financial system.

Third, we have proposed that the Organisation for Economic Co-operation and Development (OECD) should identify best practices for countries that receive foreign government-controlled investment, based on its extensive work on promoting open investment regimes. These should have a focus on avoiding protectionism and should be guided by the well-established principles embraced by OECD and its members for the treatment of foreign investment.

We have already seen meaningful progress along these lines. On May 12-13 of last year, Treasury hosted a G-20 meeting of Finance Ministry and Central Bank officials on commodity cycles and financial stability, which included perhaps the first multilateral discussion of sovereign wealth funds among countries with these funds and countries in which they invest. Following a period of extensive direct bilateral outreach with sovereign wealth funds, Secretary Paulson hosted a G-7 outreach meeting on October 19, 2007 with Finance Ministers and heads of sovereign wealth funds from eight countries (China, Korea, Kuwait, Norway, Russia, Saudi Arabia, Singapore, and the United Arab Emirates) to build support for best practices.

On October 20, 2007, the International Monetary and Financial Committee – a ministerial level advisory committee to the IMF – issued a statement calling on the IMF to begin a dialogue to identify best practices for sovereign wealth funds. On November 15-16, 2007, the IMF hosted a roundtable meeting for sovereign asset and reserve managers. In response to the IMFC statement, the IMF added a special session on policy and operational issues relating to SWFs for official sector delegates. This marks the beginning of an important process in the IMF. IMF Managing Director Dominique Strauss-Kahn opened the roundtable meeting and underlined that some form of agreement on best practices for the operations of SWFs could help maintain an open global financial system(3). A separate dialogue is well underway in the OECD on investment policy issues with regard to SWFs, building on the discussions on Freedom of Investment, National Security, and "Strategic" Industries.

Fourth, Treasury has taken a number of steps internally and within the U.S. Government to enhance our understanding of sovereign wealth funds. Treasury has created a working group on sovereign wealth funds that draws on the expertise of Treasury's offices of International Affairs and Domestic Finance. Treasury's new market room is ensuring vigilant, ongoing monitoring of sovereign wealth fund trends and transactions. Through the President's Working Group on Financial Markets, chaired by Secretary Paulson, we continue to discuss and review sovereign wealth funds. We also have initiated bilateral outreach to ensure an ongoing and candid dialogue with countries with significant sovereign wealth funds

and their management.

Treasury is actively coordinating with Congress through staff briefings and committee hearings. As you may know, I testified on these issues before the Senate Banking Committee in November. Also, in June and December of last year we provided Congress with updates on our sovereign wealth fund-related work in an appendix to the Report on International Economic and Exchange Rate Policies, and we will continue to provide updates on a semi-annual basis.

The Treasury Department will continue its work on sovereign wealth funds through sound analysis and focused bilateral and multilateral efforts to help ensure the United States shapes an appropriate international response to this issue, addresses legitimate areas of concern, and together with other countries, remains open to foreign investment.

(1) Russell Green and Tom Torgerson, "Are High Foreign Exchange Reserves in Emerging Markets a Blessing or a Burden?" Office of International Affairs Occasional Paper No. 6, U.S. Department of the Treasury, March 2007.

(2) U.S. Department of the Treasury, "Sovereign Wealth Funds," Appendix 3 of the Semi-Annual Report to Congress on International Economic and Exchange Rate Policies, June 2007.

(3) IMF Convenes First Annual Roundtable of Sovereign Asset and Reserve Managers, IMF Press Release, November 16, 2007. http://www.imf.org/external/np/sec/pr/2007/pr07267.htm

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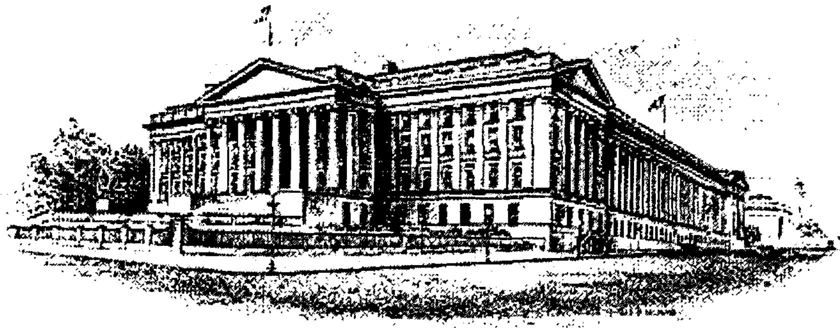
February 13, 2008
hp-824

FACT SHEET: Examples of How the Economic Growth Act of 2008 will Benefit Americans

Examples of How the Economic Growth Act of 2008 will Benefit Americans

REPORTS

- Fact Sheet



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

FACT SHEET:

EXAMPLES OF HOW THE ECONOMIC GROWTH ACT OF 2008 WILL BENEFIT AMERICANS

Married with children*:

1) Married couple with two children, wages of $4,000, no federal income tax liability before child tax credit.

Individual rebate	= $600
Qualifying child credit	= $600
TOTAL	= $1,200

2) Married couple with two children, no wages, veterans' payments of $2,000, social security benefits of $2,000, no federal income tax liability before child tax credit.

Individual rebate	= $600
Qualifying child credit	= $600
TOTAL	= $1,200

3) Married couple with two children, no wages, no social security benefits, veterans' payments of $4,000, no federal income tax liability before child tax credit.

Individual rebate	= $600
Qualifying child credit	= $600
TOTAL	= $1,200

4) Married couple with two children, no wages, no social security benefits, no veterans' payments, AGI = $25,000, federal income tax liability before child tax credit = $70.

Individual rebate	= $600
Qualifying child credit	= $600
TOTAL	= $1,200

5) Married couple with two children, AGI = $35,000, federal income tax liability before child tax credit = $1,070.

Individual rebate	= $1,070
Qualifying child credit	= $600
TOTAL	= $1,670

6) Married couple with two children, AGI = $80,000, federal income tax liability before child tax credit exceeds $1,200.

Individual rebate	= $1,200
Qualifying child credit	= $600
TOTAL	= $1,800

7) Married couple with two children, AGI = $160,000, federal income tax liability before child tax credit exceeds $1,200.

Individual rebate	= $1,200
Qualifying child credit	= $600
Phaseout reduction	= ($500)
TOTAL	= $1,300

Head of household with children:

1) Single parent with two children, wages of $4,000, no federal income tax liability before child tax credit.

Individual rebate	= $300
Qualifying child credit	= $600
TOTAL	= $900

2) Single parent with two children, no wages, veterans' payments of $2,000, social security benefits of $2,000, no federal income tax liability before child tax credit.

Individual rebate	= $300
Qualifying child credit	= $600
TOTAL	= $900

3) Single parent with two children, no wages, no social security benefits, veterans' payments of $4,000, no federal income tax liability before child tax credit.

Individual rebate	= $300
Qualifying child credit	= $600
TOTAL	= $900

4) Single parent with two children, no wages, no social security benefits, no veterans' payments, AGI = $20,000, federal income tax liability before child tax credit = $195.

Individual rebate	= $300
Qualifying child credit	= $600
TOTAL	= $900

5) Single parent with two children, AGI = $22,000, federal income tax liability before child tax credit = $395.

Individual rebate	= $395
Qualifying child credit	= $600
TOTAL	= $995

6) Single parent with two children, AGI = $60,000, federal income tax liability before child tax credit exceeds $600.

Individual rebate	= $600
Qualifying child credit	= $600
TOTAL	=$1,200

7) Single parent with two children, AGI = $90,000, federal income tax liability before child tax credit exceeds $600.

Individual rebate	= $600
Qualifying child credit	= $600
Phaseout reduction	= ($750)
TOTAL	= $450

Married, no children:

1) Married couple with no children, wages of $4,000, no federal income tax liability.

Individual rebate = $600

2) Married couple with no children, no wages, veterans' payments of $2,000, social security benefits of $2,000, no federal income tax liability.

Individual rebate = $600

3) Married couple with no children, no wages, no social security benefits, veterans' payments of $4,000, no federal income tax liability.

Individual rebate = $600

4) Married couple with no children, no wages, no social security benefits, no veterans' payments, AGI = $20,000, federal income tax liability = $250.

Individual rebate = $600

5) Married couple with no children, AGI = $25,000, federal income tax liability = $750.

Individual rebate = $750

6) Married couple with no children, AGI = $60,000, federal income tax liability exceeds $1,200.

Individual rebate = $1,200

7) Married couple with no children, AGI = $160,000, federal income tax liability exceeds $1,200.

Individual rebate	= $1,200
Phaseout reduction	= ($500)
TOTAL	= $700

Single, no children:

1) Individual with wages of $4,000, no federal income tax liability.

Individual rebate = $300

2) Individual with no wages, veterans' payments of $2,000, social security benefits of $2,000, no federal income tax liability.

Individual rebate = $300

3) Individual with no wages, no social security benefits, veterans' payments of $4,000, no federal income tax liability.

Individual rebate = $300

4) Individual with no wages, no social security benefits, no veterans' benefits, AGI = $10,000, federal income tax liability = $125.

Individual rebate = $300

5) Individual with AGI = $12,000, federal income tax liability = $325.

Individual rebate = $325

6) Individual with AGI = $35,000, federal income tax liability in excess of $600.

Individual rebate	= $600

7) Individual with AGI = $80,000, federal income tax liability in excess of $600.

Individual rebate	= $600
Phase out reduction	= ($250)
TOTAL	= $350

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PRESS ROOM

February 13, 2008
HP-825

Treasurer Anna Escobedo Cabral
Remarks on Housing before the National Association of Hispanic Media

Washington - Good morning. Thank you, Clara, for that introduction. I'm pleased to join this distinguished group of publishers, editors, and writers from Hispanic-owned or Spanish language newspapers. I want to thank you for the important work you do. Not only are you important leaders for the Hispanic community – you are also the critical messengers that help ensure our communities are kept informed.

I'm excited to be here today because I have some important messages to share regarding ongoing efforts at Treasury, including our work to address the current challenges in the housing market. And I'd like to call on your partnership and support in these efforts.

As many of you know, our country is experiencing a period of adjustment in the housing sector of our economy. While the long-term economic fundamentals of our country remain strong, many individuals, families and communities are experiencing the pain of resetting mortgage rates, home price depreciation, and neighborhood foreclosures. A significant number of Americans have lost their homes due to foreclosures, and many more are struggling. The Hispanic community is among those struggling.

Over the past several months, I've had the opportunity to visit some of out country's most affected communities. I've seen firsthand the negatives impacts of foreclosures. The blow of a foreclosed home ripples through the broader community – resulting in depreciated home values, higher crime rates, increased unemployment, and placing a strain on the overall financial stability and health of the community.

Clearly, foreclosures are painful for families, cities, the lenders and the larger economy. As a result, we have redoubled our efforts to reach borrowers who may need help. State and local leaders, community organizations, and the private sector have been working hard to address this issue. But much work remains, and we need your help.

Elevated foreclosure rates are expected to remain over the course of the next two years. In fact, approximately 1.8 million subprime mortgages are expected to reset in this same time period. The good news is that not all of these will end in foreclosure. Some homeowners will be able to afford their new payments. Others will refinance into a fixed rate mortgage on their own. Unfortunately for some whose finances have been stretched to thin, foreclosure will be unavoidable.

However, there is still another group that falls in the middle. This is a group that we can help through a targeted approach, but first we need to identify and reach them.

Over the past six months, Treasury has been working with the Department of Housing and Urban Development to with the clear goal to help more Americans remain in their homes. As a result, A new national alliance – HOPE NOW – was launched at the end of last year. The Alliance – made up of our nation's leading counselors, servicers and investors – has been critical to bolstering our outreach efforts to vulnerable homeowners. Today, the Alliance has grown to make up over 94 percent of the subprime mortgage servicing market.

Under the leadership of Secretaries Paulson and Jackson a new effort called Project Lifeline was launched yesterday. This is a targets outreach effort to the most vulnerable homeowners- those for whom foreclosure is most imminent. Under this program, the largest members of the HOPE NOW Alliance will begin sending letters to homeowners who are delinquent in their payments by 90 days or more. These letters will offer a step-by-step simple approach that may enable homeowners to pause their foreclosure for 30 days while a potential modification is being worked out.

Now this is just a small step in what will continue to be a broader plan, but it is significant for homeowners who otherwise would have gone into foreclosure immediately.

Since its creation, HOPE NOW has been successful in offering a variety of other resources to struggling homeowners. First, they adopted a centralized hotline that offers free foreclosure prevention counseling. The hotline – 888-995-HOPE – is operated by the Homeownership Preservation Foundation, and in order to sustain the HOPE hotline, servicers and investors reimburse hotline counselors $100 for every session completed. The $100 fee per counseling session was a major step, as counseling has traditionally been supported solely by government and foundation funding.

HOPE NOW servicers are also contacting all subprime adjustable-rate mortgage borrowers at a minimum of 120 day before their mortgage is due to reset in an effort to identify and help troubled borrowers. The earlier borrowers reach out for assistance, the more options they'll find.

The HOPE NOW alliance also launched a direct mail campaign late last year. This is a critical step. We know that half of borrowers who reached foreclosure never reached out to their lender or a housing counselor to ask for help. In some cases, this can be a cultural issue – instead of stepping out into the light and asking for help, many borrowers hide in the dark, ignoring the letters from their lenders.

The HOPE NOW mail campaign is targeted to all borrowers who are 60 days or more delinquent on their loans, but have still not contacted their servicer. The letter provides good information about foreclosure prevention under one recognizable and trustworthy HOPE NOW banner. Most importantly it shows them that help is available if they ask for it.

To date, HOPE NOW has sent approximately 775,000 letters to borrowers who could have the option to work out a more affordable solution, and they will continue to reach more borrowers in the coming months. For borrowers who are reluctant to call their lender, they can call the 888-995-HOPE hotline to reach an independent, non-profit counselor who can help guide them through their options.

Other HOPE NOW accomplishments include streamlining efforts between counselors and services so that they can communicate better and improve their efficiency as well as developing standard performance measures. Any strong initiative must have measures of progress. We've already seen these measures put to test.

Since its launch, the HOPE hotline has experienced a 540% increase. In August, it was receiving an average of 625 calls per day and now it receives 4,000 new calls a day. In addition, early results of the HOPE NOW outreach letters indicate over 16% of recipients have contacted their servicer or a non-profit counselor to explore potential mortgage solutions.

HOPE NOW also recently reported that the industry helped 545,000 homeowners with subprime loans in the second half of 2007, and 150,000 of those homeowners received modifications.

Even better, the rate of modifications of subprime loans more than doubled from the third quarter to the fourth quarter of calendar year 2007, and we expect this

progress to continue.

We are pleased with the progress of the HOPE NOW Alliance. For our part, the Administration has also worked with Congress to provide increased funding to NeighborWorks for counselor networks and requested that Congress pass FHA modernization. Congress passed the President's tax relief proposal, which was signed into law in December and will help relieve some of the burden on families. The Administration will also continue working with the Congress on its proposal to allow state housing authorities to issue tax-exempt bonds to help refinance borrowers into more affordable mortgages.

These are all positive steps in the right direction. But this challenge will not disappear tomorrow, and our work must not stop here. We must instead remain committed to expanding our outreach network to reach as many struggling individuals in communities throughout our country.

This is where your role as messengers to our communities can help. You have the potential to empower your readers, viewers and listeners in the Hispanic community with information that could be critical to helping them remain in their homes.

As Treasurer, I spend a lot of time talking about the importance of financial literacy. In many cases, our most vulnerable communities – underserved communities, those without bank accounts who lack access to basic financial services – are also minority communities who lack the information they need to make smart financial decisions.

At Treasury, we've been working hard to reach these communities, and we need your help. There are a variety of financial education topics of great significance to the Hispanic community – from understanding the importance of having a bank account to knowing how to use credit to your advantage to knowing the terms of your mortgage.

I challenge you to learn more about these issues and work to incorporate them into your stories and publications. To promote foreclosure prevention, NeighborWorks and the Ad Council have launched a PSA campaign targeted at struggling homeowners.

These messages – for print, radio and television – are available in English and Spanish. We need your help in spreading this message, and I invite you to partner with us in this effort.

Our progress is only as great as our strongest partnerships. I encourage you to help us spread this important message to as many homeowners as possible, and if there is any way we can be of help to you, please let us know.

One last point before I close: Since taking office, President Bush has worked hard to break down barriers to homeownership and expand the dream of owning a home to more Americans. It is incumbent upon us to preserve this dream. At the end of the day, if we can help keep more families in their homes, our country and economy will be better off as a whole. Once again, I applaud your efforts to keep the Hispanic community informed. Working together, I'm confident we can help preserve the American dream of homeownership.

Thank you.

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PRESS ROOM

February 13, 2008
HP-826

Treasury to Host Mexican Finance Minister for Workshop on Financial Inclusion in Latin America

U.S. Treasurer Anna Escobedo Cabral will host Mexican Finance Secretary Agustín Carstens and other Latin American leaders this week for a two-day Workshop on Financial Inclusion, building on Secretary Paulson's initiative to improve Latin Americans' access to basic financial services announced in a June 2007 speech.

The vast majority of the Latin American population functions exclusively in a cash and barter economy. More than 70 percent of the residents of most Latin American economies do not use basic financial services such as deposit and transaction accounts, according to World Bank estimates. These households either lack access to these services or fail to make use of services that are available.

Recent cross-country analysis by the World Bank indicates that financial exclusion can dampen economic growth and contribute to financial instability.

The workshop will focus on a variety of issues on living without tools to build financial security, including improving small business lending in Latin America, regulatory landscape and the impact of remittances on the region.

Treasurer Cabral has carried out Secretary Paulson's initiative to improve access to financial services in this region by meeting with policy makers and private sector leaders in their home countries and by hosting conferences here in the United States.

Opening remarks for the event will be open to the media.

- **Who** U.S. Treasurer Anna Escobedo Cabral
- **What** Opening Remarks Workshop on Financial Inclusion in the Americas
- **When** Thursday, February 14 10:00 a.m. EST
- **Where** Treasury Department
  Cash Room
  1500 Pennsylvania Avenue, NW
  Washington, D.C.
- **Note** Media without Treasury press credentials should contact Courtney Forsell at (202) 622-2960, or Courtney.Forsell@do.treas.gov with the following information: full name, Social Security Number and date of birth.

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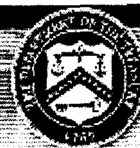
PRESS ROOM



June 12, 2007
HP-451

**Remarks by Treasury Secretary Henry M. Paulson, Jr.
on Supporting Small Business in the Americas
at the Americas Competitiveness Forum**

Atlanta, GA-- Thank you, Carlos, for that kind introduction. This inaugural meeting of the Americas Competitiveness Forum is possible because of your leadership. This is a unique opportunity to engage in meaningful discussion about ways to enhance competitiveness and economic prosperity in our region.

I would also like to acknowledge Rob Mosbacher, the President of the Overseas Private Investment Corporation. OPIC does valuable work mobilizing one of our greatest assets, U.S. private capital, to promote social and economic development in the Western Hemisphere and around the world.

I welcome this opportunity to share my thoughts and to emphasize the U. S.' stake in the economic success of Latin America. This region is moving towards its enormous potential as an engine of growth, opportunity and poverty reduction for its own citizens and for the global economy. In recent years, a number of governments have strengthened their policies – shored up public finances, reduced debt vulnerability, opened markets, and laid the foundation for the growth we are now seeing.

My message today is that spreading economic opportunity within and between the nations of the Americas is urgent and possible. President Bush often refers to the growing ties between Western Hemisphere nations. We share two-way trade flows of more than $1 trillion and two-way investment of more than $1 trillion. Last year workers from the region employed in the United States sent an estimated $45 billion home to their families. The U.S. acts in our own and, we believe, the region's best interest when we help neighboring nations build open economies and create opportunity for all their people. This includes those who have not yet benefited from this progress.

A key to spreading prosperity is supporting entrepreneurs. More people share in the benefits of economic freedom and growth when small businesses thrive. Small businesses tend to be labor intensive and are usually responsible for over 50 percent of new job creation. They are the engine of job and wealth creation in most economies. So, in March, when the President asked the Treasury and State Departments to develop an initiative to "help U.S. and local banks improve their ability to extend good loans to small businesses," I was pleased to accept his charge.

A thriving small business community can reduce poverty and inequality, as well as create jobs. When individuals turn their ideas into productive businesses, they make a transition from workers to owners. Ownership helps create sustainable and stable economies with broader opportunities for all citizens. Economic and social mobility have always been at the core of the U.S. system. We want to help Latin American countries create the same mobility for their citizens.

We need to get real support to these entrepreneurs. They have good ideas, markets to serve and the skills to operate in an often tough environment. They can also form constituencies that drive governments to strengthen their business climates and improve governance.

But, they often are frozen out of the formal financial sector. It is estimated that only 10 percent of small businesses in Latin America have access to financing from banks and commercial lenders. The other 90 percent depend on friends, relatives or other informal sources of capital that can charge 10 percent or more in daily interest.

One key barrier to credit is that banks lack information about, and experience with, smaller companies. Banks are often more comfortable lending to larger companies that have collateral, formal financial statements and documentation. Small companies may not yet have these resources, and so traditional lending criteria don't apply. Banks need the tools necessary to assess the value and risk of these smaller companies.

Lack of finance may mean the difference between success and failure, growth or stagnation. These entrepreneurs need capital to expand into bigger space, purchase additional inventory to serve growing demand and new markets, to buy capital equipment. We see evidence in economies around the world that greater availability of finance not only enhances growth, it reduces poverty and inequality, and helps to build a middle class.

I'm pleased to announce our answer to President Bush's call – we have developed a three-part plan to catalyze market-based bank lending to small businesses in Latin America. By breaking down the barriers that block commercial bank financing, we can work to build this necessary function in developing economies.

This initiative targets small, profitable firms with growth potential, and it has three elements. The first two will provide support to banks willing to commit to specific and ambitious targets for small business lending. The third will address the regulatory environment.

First, we will promote the spread of new lending models that fit the unique characteristics of smaller companies. We will offer the tools to adopt these models so that banks can build capacity to quickly and accurately assess the credit quality of small companies. This capacity building facility would be housed in the Multilateral Investment Fund, MIF, of the Inter-American Development Bank. We have committed to replenish this fund and we are actively working with the MIF to develop a program which would provide up to $50 million over five years for this purpose.

Second, the Overseas Private Investment Corporation, OPIC, and the IDB Group's Inter-American Investment Corporation, IIC, will assume a portion of the risks associated with this lending. OPIC has already identified banks with the potential to provide up to $150 million using OPIC support through various vehicles that address particular market needs. The IIC will also build upon its relationships in the region to offer a similar menu of options to banks under the initiative. These vehicles include credit guarantees to banks to support small business on-lending by banks in Latin America; local currency guarantees on small business loan portfolios held by local banks; and partial guaranties for bond issues to fund small business loans.

A third and equally important step is making sure that small business lending isn't unnecessarily constrained by burdensome regulations or bureaucracy. Treasury's Office of Technical Assistance and the MIF will work with local authorities to review existing regulations. The team will identify and address obstacles to small business lending, such as excessive collateral and capital requirements and interest rate restrictions. The MIF, with support from Treasury, will also engage with regional banking regulators and supervisors to define and promote the adoption of best practices in micro, small and medium lending.

Taken together, these three steps – building new lending models, sharing the initial risk for early-stage loans and helping to ensure a constructive bank regulatory environment – will open new opportunities for banks to lend and for small businesses to grow. Public efforts and funds will leverage private money to support small businesses, and create the foundation for sustainable, non-governmental

market-based lending. We'll kick-start the model to help existing businesses in the region best positioned to expand, and to help entrepreneurs with good ideas get started.

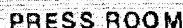
Once participating banks demonstrate that it is profitable to lend to small businesses, competition will bring other banks into the market and the need for on-going assistance should diminish. Application of this model in Eurasia has created over $12 billion in new small business lending to nearly two million companies and, especially for small countries, transformed financial sectors.

Household financial education is also vital to the success of this initiative. Many entrepreneurs get their start using their own savings or personal loans. Treasurer Anna Cabral will host a Latin America Regional Conference this fall to discuss ways we can enhance access to financial services, including financial service access of entrepreneurs in the region.

Our interest in Latin America is strong, and it will continue. The countries of the Americas are brought together by geography and history, and bound together by common interest. The United States is committed to helping Latin America reduce poverty, fight corruption, build the middle class, and generate more opportunities for people who feel excluded from the region's growing prosperity.

Since becoming Treasury Secretary, I have visited Colombia, Guatemala, Peru and Mexico. This region is a high priority for me, and I will return to South America in July. I'll also continue discussing with my regional colleagues how we can work together to improve economic and social opportunities for people throughout Latin America.

Thank you. I welcome the opportunity to answer a few questions.



July 20, 2007
HP-497

Update: U.S. Treasurer to Launch Latin America Initiative with Visits to Mexico, Central America

U.S. Treasurer Anna Escobedo Cabral will travel to El Salvador, Guatemala, Honduras and Mexico next week, where she will launch the Treasury Department's initiative to provide Latin Americans with better access to banks and other basic financial services. Secretary Henry M. Paulson, Jr. discussed his goal of improving the availability of basic financial services in the region in a June speech at the Americas Competitiveness Forum

The vast majority of the Latin American population functions exclusively in a cash and barter economy. More than 70 percent of the residents of most Latin American economies do not use basic financial services such as deposit and transaction accounts, according to World Bank estimates.

Treasurer Cabral will meet with representatives from the public, private and non-profit sectors in each country and host a series of public discussions focused on ways to give more Latin Americans access to basic financial services. This visit is in advance of the Latin America Regional Conference, which Secretary Paulson announced last month and Treasurer Cabral will host this fall. More details on the trip will follow in the coming week.

Who
U. S. Treasurer Anna Escobedo Cabral
What
Press Availability
When
Wednesday, July 25 2:30 p.m. (Local Time)
Where
Central Reserve Bank of El Salvador
Alameda Juan Pablo II, between 15 and 17 Av. Norte.
Apartado Posta (106)
San Salvador, El Salvador

Who
U. S. Treasurer Anna Escobedo Cabral
What
Press Availability
When
Monday, July 30 4:30 p.m. (Local Time)
Where
U.S. Embassy in Honduras
Avenida La Paz
Tegucigalpa, Honduras

Who
U. S. Treasurer Anna Escobedo Cabral
Mexico Subsecretary of Finance and Public Credit Alejandro M. Werner
What
Breakfast Seminar on Improving Access to Financial Services in Latin America
When
Wednesday, August 1 8:30 a.m. (Local Time)
Where
Sheraton Hotel & Convention Center

Avenida Juarez 70, Colonia Centro
Mexico City Federal District
Mexico City, Mexico

Who
U. S. Treasurer Anna Escobedo Cabral
What
Press Availability
When
Wednesday, August 1 11:30 a.m. (Local Time)
Where
Sheraton Hotel & Convention Center
Avenida Juarez 70, Colonia Centro
Mexico City Federal District
Mexico City, Mexico

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February 13, 2008
hp-827

Treasury Holds Inaugural Meeting of President's Advisory Council on Financial Literacy

Washington - The Treasury Department today held the first meeting of the President's Advisory Council on Financial Literacy to lay out its agenda and goals for the upcoming months. The new Council, established by President George W. Bush on January 22, agreed to focus on expanding Americans' access to financial services and increasing financial education for youth in school and for adults in the workplace. The Council also called for research to measure the nation's level of financial literacy.

"Every American should have the skills necessary to take control of his or her financial future, and basic financial education is the first step to achieving that goal," said Council chairman Charles Schwab, who led the meeting. "This Council is committed to making financial literacy a national priority, and to bringing together the private sector, the government, the non-profit sector and our religious communities to help give people of all ages and backgrounds the skills to understand and manage their finances."

"The President formed this Council because he understands that financially literate Americans fare better in life," said Assistant Secretary for Financial Institutions David Nason. "The best way to raise our nation's level of financial literacy is for the government to work with the types of private sector groups represented on the Council."

The President and the Secretary of the Treasury have tasked the Council to work with the public and private sector to help increase financial education efforts for all Americans. Each Council member represents an industry involved with the delivery of financial education.

Within the next 30 days, the group will form subcommittees including Financial Literacy for Youth, Financial Literacy in the Workplace, Financial Access for the Underserved, and Financial Education Research sub-committees. The subcommittees will further lay out the Council's agenda and goals for the upcoming months. The Council is also expected to name a liaison to the Financial Literacy and Education Commission, which released a financial education strategy report in 2006.

The Council also announced that it will be accepting public comments February 20 - April 30. Details on how to submit public comments will be published in the Federal Register Notice on or about February 20 and posted on http://www.treas.gov/ofe/. The Council will next meet on June 18.

The new Council members are:

- Mr. Ted Beck, National Endowment for Financial Education
- Mr. John Bryant, Operation HOPE, Inc. (Vice Chairman)
- Mr. Theodore Daniels, Society for Financial Education and Professional Development
- Vice Admiral (retired) Cutler Dawson, Navy Federal Credit Union
- Dr. Robert Duvall, National Council on Economic Education
- Dr. Tahira Hira, Iowa State University
- Mr. Jack Kosakowski, Junior Achievement USA
- Ms. Sharon Lechter, CEO and Founder of Lechter Development Group
- Dr. Robert Lee, FreshMinistries, Inc.

- Ms. Laura Levine, Jump$tart Coalition for Personal Financial Literacy
- Mr. David Mancl, Office of Financial Literacy of the Wisconsin
- Department of Financial Institutions
- Mr. Don McGrath, Bank of the West
- Ms. Janet Parker, Society of Human Resource Management
- Mr. Ignacio Salazar, SER National
- Ms. Mary Schapiro, Financial Industry Regulatory Authority
- Mr. Charles Schwab, Charles Schwab Corporation (Chairman)

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PRESS ROOM

February 14, 2008
hp-828

Opening Statement Prepared for Delivery by Treasury Secretary Henry M. Paulson, Jr. on the Economy and Financial Markets before the Senate Committee on Banking, Housing and Urban Affairs

Washington- Chairman Dodd, Senator Shelby, Members of the Committee: Thank you for the opportunity to be here today. I am pleased to appear with my colleagues Chairman Bernanke and Chairman Cox. I appreciate their leadership on the challenges confronting our economy and capital markets, and look forward to continued close, productive working relationships.

The U.S. economy is fundamentally strong, diverse and resilient, yet after years of unsustainable home price appreciation, our economy is undergoing a significant and necessary housing correction. The housing correction, high energy prices and capital market turmoil are weighing on current economic growth. I believe that our economy will continue to grow, although its pace in coming quarters will be slower than what we have seen in recent years.

Four weeks ago, recognizing the downside risks to our economy and that the short-term cost of doing nothing was too high, President Bush called for an economic growth package to provide a temporary boost to our economy as we weather the housing correction.

The Congress responded with bipartisanship, cooperation and speed to pass an economic growth package that is temporary, broad-based and will assist our economy quickly. We have demonstrated to the nation and the world that we can come together to address the needs of the American people as we weather the housing downturn.

Yesterday, the President signed the economic package into law and Treasury is already working to send payments out to more than 130 million American households.

The IRS will manage the current tax filing season and simultaneously prepare to issue these additional payments starting in early May. Payments will be largely completed this summer, putting cash in the hands of millions of Americans at a time when our economy is experiencing slower growth. Together, the payments to individuals and the investment incentives for businesses will help create more than half a million jobs by the end of this year.

In addition to this growth plan, the Administration will continue to focus on aggressive action to try to provide alternative options to foreclosures. This includes encouraging the HOPE NOW alliance, a coalition representing over 90 percent of the subprime servicing market, and non-profit mortgage counseling organizations, trade associations and investors.

This industry-wide effort employs multiple tools to reach and help struggling homeowners, including streamlining able subprime borrowers into re-financings and loan modifications.

The HOPE NOW effort is making progress. According to updated statistics, in the second half of 2007 the industry assisted 869,000 homeowners, including 545,000 subprime borrowers who received loan modifications and repayment plans. The progress rate is accelerating; the number of subprime modifications in the fourth

quarter doubled over the rate in the third quarter. In Q4 alone, of the estimated 1.5 million homeowners of all types delinquent 60 or more days, over 470,000 received help from their servicer and almost 30 percent of those received a loan modification.

I expect that this progress will accelerate in 2008. In January, the industry began implementing a new framework to streamline mortgage modifications for able but struggling subprime borrowers. As announced by the American Securitization Forum, this framework will greatly speed the financial evaluation process – borrowers who have made their initial payments but cannot afford the interest rate reset may be fast-tracked for modification or re-finance, allowing mortgage counselors and servicers to devote time and resources to the more difficult cases.

Currently, I am focusing on two aspects of this effort: first, on ensuring that the ASF framework is adopted throughout the industry, so that the industry is better prepared to deal with the rising volume of subprime mortgage resets; and second, on ensuring that the HOPE NOW alliance produces timely metrics so that policy makers and industry participants can evaluate progress and make adjustments as needed.

I appreciate this Committee's leadership and specific efforts to address issues that have arisen during the housing downturn. Finalizing the FHA modernization bill will provide additional tools to help homeowners and I encourage you and the House to reach consensus as soon as possible. Enactment of GSE regulatory reform is also a very high priority for Treasury and the Administration, and I commend the chairman and committee members for your willingness to move forward promptly. While not under this committee's jurisdiction, the Administration has also proposed legislation that will allow states to issue tax-exempt bonds for innovative refinancing programs. This tax proposal is in addition to that signed into law in December, which provides temporary tax relief for homeowners facing increased taxes due to forgiven mortgage debt. All of these initiatives may help mitigate the housing headwinds, and we remain open to other good ideas as we move forward.

Treasury continues to monitor capital markets closely and to advocate strong market discipline and robust risk management. While we are in a difficult transition period as markets reassess and re-price risk, I have confidence in our markets. They have recovered from stressful periods in the past, and they will do so again.

Working through the current stress is our first concern. Through the President's Working Group on Financial Markets, we are also reviewing underlying issues ranging from enhancing risk management to market infrastructure, to reporting and disclosure, to ratings and investor practices. We know a short-term boost to our economy is needed. We also know that it is just as important to get the long-term policy response right.

Thank you and I am pleased to take your questions.

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PRESS ROOM

February 14, 2008
hp-829

Treasurer Anna Escobedo Cabral
Welcome Remarks at the Workshop on Financial Inclusion in the Americas

Washington - Good morning. Thank you for being here. I'm extremely pleased to welcome you to Treasury's historic Cash Room – a room where cash was once produced, counted and stored. I'm also very pleased and honored that Secretary Carstens could join us today. On behalf of Secretary Paulson, I'd like to thank Secretary Carstens for your strong partnership.

I also want to thank the government representatives from Guatemala, Honduras and El Salvador for being here. Secretary Paulson regrets not being able to join us this morning. Promoting economic growth, fighting poverty and income inequality and expanding infrastructure and investment throughout Latin America remain priorities for President Bush and Secretary Paulson.

In fact, this workshop is part of a broad Treasury priority to advance financial inclusion. Your participation here today underscores the important role financial inclusion plays in expanding opportunity and economic development throughout the world.

Inclusion in the financial mainstream is essential for a country's long-term economic growth and financial stability. In many Latin American countries, up to 70% of the population functions entirely outside of the financial system. By providing households with the opportunity to safely save, borrow, and invest, we can empower individuals with the ability to take advantage of economic opportunities and build financial security.

Countries have struggled with this issue for decades. In fact, we face the same challenge in the U.S. where an estimated 10 million residents do not participate in the financial mainstream. We know there are many reasons why these individuals are unbanked – some face language or cultural barriers, some live in rural areas with no convenient access to financial institutions, and some simply have never had a relationship with a financial institution.

To be sure, the unbanked population is diverse, and a diversity of financial products and services are required in order to meet their unique needs. This requires innovation, creativity, and most importantly cooperation across a range of sectors.

The high cost of establishing and maintaining vast brick and mortar branch networks has been one of the biggest hurdles to expanding access. Advances in technology now make it possible to reach even the most isolated communities with high quality, low cost financial services. But we all have a role to play. Governments must work to foster a sound and effective regulatory environment that gives the private sector the opportunity to put innovation to work.

What we've found in the United States, and quite frankly, in other countries we've worked with, is that our efforts to advance financial inclusion are only as strong as the partnerships we can create with each other. Over the next day and a half, we'll explore the challenges that hinder participation in the financial mainstream, and we'll learn about a variety of business models and partnerships that are helping to break through these obstacles.

We'll also discuss strategies to meet the diverse needs of underserved

communities, and ways that we can empower consumers to make the most of the financial opportunities available to them. This is critical when we talk about remittances – an issue of great importance to all of the countries here. Remittances can have a potentially meaningful impact if we can help those receiving this money to build their assets and invest wisely.

Unfortunately, a majority of remittance senders and recipients are unbanked – which means a percentage of their money is being spent on transfer fees that contribute to large transaction costs. If we can help channel remittance money through the formal financial system, remittances have the potential to become a driving force for economic growth through savings and investment.

Micro, small, and medium enterprises have the potential to be the powerhouses of our economies, but many entrepreneurs are intimidated by formal bank settings and requirements for opening accounts. Instead these entrepreneurs turn to informal lenders which increase their cost of doing business. Opening the formal system to these business owners will make them more competitive and increase their opportunities for growth.

Throughout this workshop, we aim to address a broad set of issues in a short amount of time. But these issues are important because at the end of the day – for every country represented here – getting more people involved in the mainstream financial sector is about investing in our communities. Financial inclusion is a step toward economic mobility. It's the work of every one of us here today to find creative ways to offer a bridge into the formal financial sector.

I look forward to a meaningful exchange of ideas and solutions throughout this workshop. This is meant to be a discussion, so I encourage everyone to share your thoughts. By tomorrow afternoon, we will leave with at the very least a room full of very strong and valuable partners, and I'm confident that our work together will ensure that more people experience the benefits of the region's growing prosperity.

Again, thank you for being here, and now I'm pleased our keynote speaker. Agustín Carstens assumed office as Secretary of Finance and Public Credit of Mexico on December 1, 2006 with the new government of President Felipe Calderón. Prior to taking up his current position he was Deputy Managing Director of the International Monetary Fund. Mr. Carstens has a Ph.D. and an M.A. in Economics from the University of Chicago. He has a B.A. in Economics from el Instituto Tecnológico Autónomo de México. He brings to his position expertise gained from a career at the Banco de México among other notable positions.

Secretary Carstens is a leader in the region and a strong partner to us at Treasury. I'm pleased to introduce Secretary Agustín Carstens. Thank you.

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February 14, 2008
hp-830

Citizens' Guide Provides Easy Public Access to Government's Financial Report

Washington - The Treasury Department and the Office of Management and Budget (OMB) today released *The Government's Financial Health: A Citizens' Guide to the 2007 Financial Report of the United States Government.* The eight-page Citizens' Guide provides readers with a user-friendly reference tool for finding key results of the Financial Report released in December 2007. This is the first time the Federal government has issued this type of summary. A similar summary report will be published annually hereafter.

Drafted in coordination with the U.S. Government Accountability Office (GAO), the Citizens' Guide provides an overview of the U.S. government's short-term and long-term financial outlook, including the government's biggest fiscal challenge, the unsustainable growth in entitlement programs.

In the next 35 years, the automatic spending portion of the budget will completely swallow all available revenue, which means that resources will not be available for some of the federal government's basic responsibilities, such as national defense and homeland security. The Citizens' Guide makes this kind of information easily available to a broad audience, explaining these realities in clear and stark terms.

The Citizens' Guide is available electronically at http://www.fms.treas.gov/frsummary/index.html.

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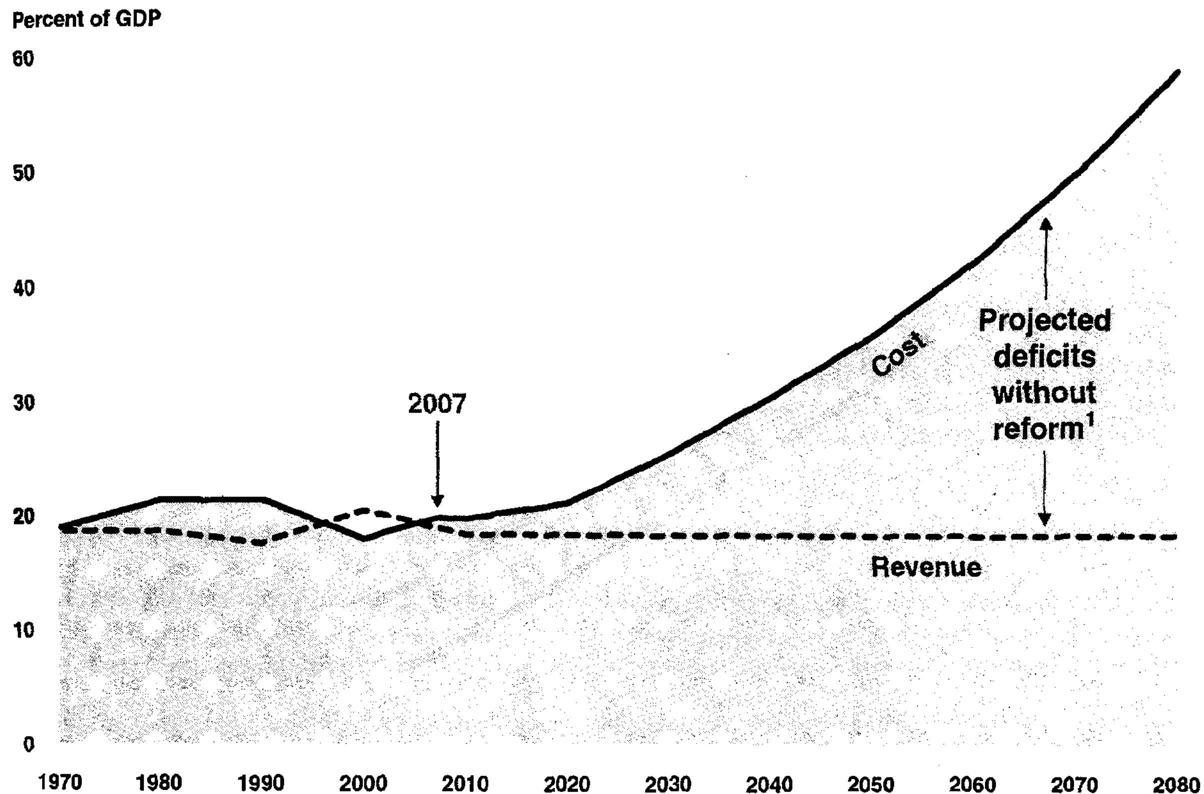
A Citizen's Guide to the 2007 Financial Report of the United States Government

The Government Is On An Unsustainable Fiscal Path



Key dates

2007	Medicare Part A benefit payments began to exceed the program's tax revenue.
2017	Social Security benefit payments will begin to exceed the program's tax revenue.
2019	Medicare Part A Trust Fund assets will not be enough to pay full benefits. Under current law, benefits would be reduced to 79 percent of scheduled benefits in 2019, declining to 29 percent by 2081.
2040	Federal debt held by the public will exceed the historical high of 109 percent of GDP.
2041	Social Security Trust Funds' assets will not be enough to pay full benefits. Under current law, benefits for all retirees would be reduced to 75 percent of scheduled benefits in 2041, declining to 70 percent by 2081.
2080	Total government cost will be more than three times revenue.

Notes:

1. Projected deficits represent projected cost in excess of revenue, where revenue as a percent of gross domestic product (GDP) is set equal to its historical average and projected cost is based on scheduled Social Security and Medicare benefits and current cost trends. While the precise amounts of the government's financial responsibilities are far from certain—they are based on many complex calculations and assumptions, including life expectancies and health care cost—their magnitude and the need to control them are evident.

2. The dates and events presented above are taken from the 2007 Annual Reports of the Social Security and Medicare Boards of Trustees and the *2007 Financial Report of the United States Government*.

Overview

This Citizens' Guide (guide) highlights important information in the *2007 Financial Report of the United States Government.*[1] The Secretary of the Treasury, Director of the Office of Management and Budget (OMB), and Comptroller General of the United States believe that the information discussed in this guide is important to all Americans.

While attention has been recently focused on addressing emerging challenges in today's economy, the last 3 years show economic growth and improvement. Revenue went up, deficits went down, and cost stayed fairly constant. But as you can see in chart 1, the government faces a huge fiscal challenge in the years ahead. This year, 2008, is the year in which the first of the approximately 80 million baby boomers—those born between 1946 and 1964—become eligible to draw Social Security benefits. Scheduled Social Security and Medicare benefits together with other federal programs' projected long-term cost are much greater than the resources (revenue and borrowings) available to pay for them.[2] Unless action is taken to bring program cost in line with available resources, the coming surge of entitlement spending will end in a fiscal train wreck that will have an adverse effect on the U.S. economy and on virtually every American.

Where We Are Now

- Strong growth in individual incomes and corporate profits contributed to 4 consecutive years of tax revenue growth—revenue was up by 46 percent since 2003 to $2.6 trillion in 2007.[3] Social Security and Medicare tax withholdings accounted for almost a third of total revenue in 2007.
- Social Security Trust Funds' revenue exceeded what the government paid out in benefits by $186 billion in 2007. This surplus was credited to the Trust Funds.
- The government's total operating cost remained relatively constant—$2.9 trillion in 2006 and in 2007.
- Revenue increases and relative cost stability resulted in a drop in the government's net operating cost—to $276 billion—and a decline in the unified budget deficit (budget deficit)—to $163 billion in 2007.
- To fund cumulative budget deficits, the government has borrowed a total of $5 trillion from the public as of the end of fiscal year 2007. The government has also borrowed excess annual cash flows from the Social Security and Medicare Trust Funds and similar funds to finance other government cost. Including interest, the government owes $4 trillion to these funds, which is backed by the full faith and credit of the government, resulting in total federal debt of $9 trillion.

Where We Are Headed

- As baby boomers retire and health care cost continue to rapidly rise, the cost of the Social Security, Medicare, and Medicaid programs will account for a growing portion of government cost.

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[1] The administration annually issues two complementary reports on the government's finances. *The Financial Report of the United States Government (Financial Report)*, issued by the Department of the Treasury, analyzes how revenue was spent in the fiscal year on programs and services and discusses the government's resulting financial position. Cost is reported at the time an obligation to pay arises rather than when payments are made. The *President's Budget* is the government's primary tool for financial planning and control. It focuses on taxpayers' dollars the government collects, how it uses them to support programs and services, and whether this use results in a surplus or deficit.

[2] This calculation assumes future government revenue as a percent of GDP is at its average historical rate of about 18 percent, and uses current spending trends to project the cost of federal programs other than Social Security and Medicare.

[3] The government's fiscal year begins October 1 and ends September 30.

- Absent reforms, the Social Security Trust Funds will be exhausted in 2041 and the Medicare Part A Trust Fund will be exhausted in 2019. Revenue dedicated to these entitlement programs under current law will not be enough to pay for scheduled Social Security and Medicare Part A benefits.
- The projected cost of all federal programs will exceed available resources. Unless the government brings program cost in line with available resources, resulting budget deficits will be so large that the government will not be able to borrow enough to fund them.
- Our children and grandchildren will bear a greater burden of the cost if we delay in implementing fundamental reforms.

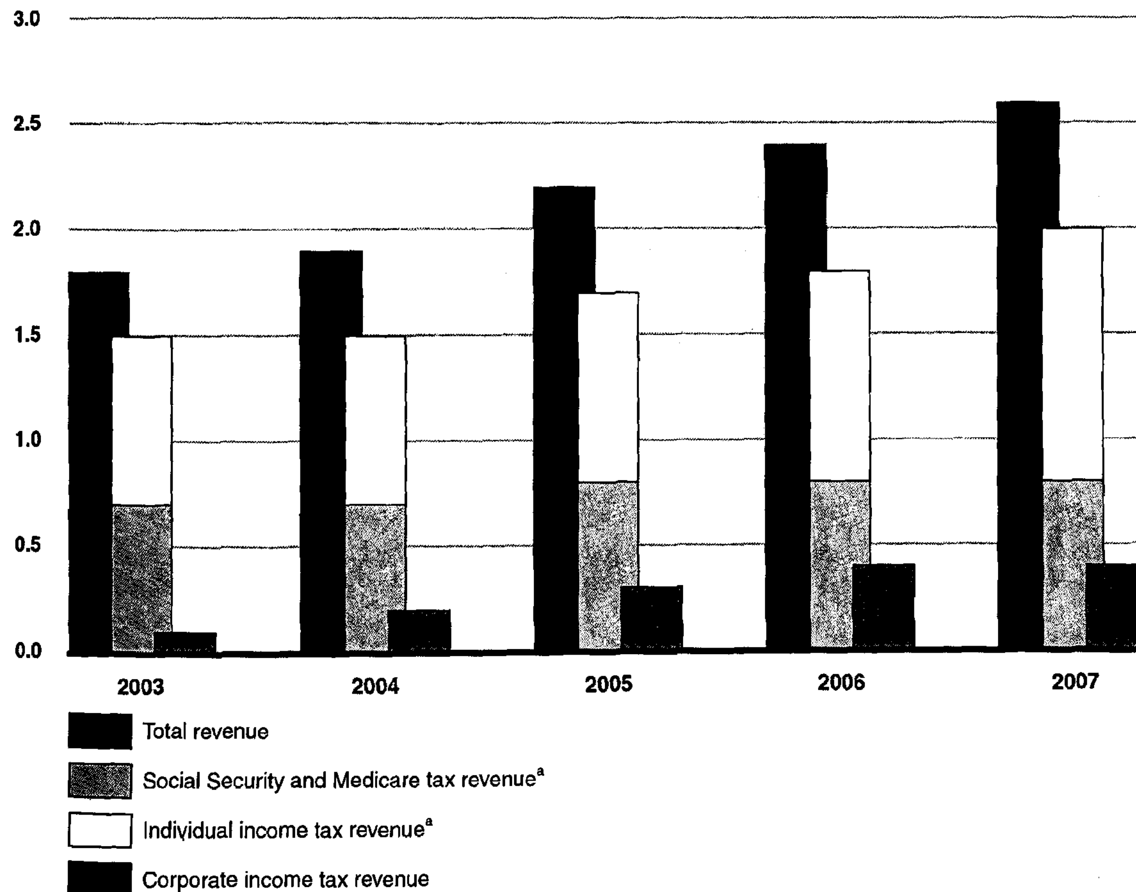
Where We Are Now

What Came In and What Went Out

What came in? In 2007, government revenue totaled $2.6 trillion. What went out? The government's operating cost totaled $2.9 trillion. The "bottom line" net operating cost—the difference between revenue and cost—was $276 billion—a $174 billion decrease from 2006. It is also more than $100 billion greater than the unified budget deficit, as it includes approximately $90 billion in accrued, but as of yet unpaid, post-employment benefits to the millions of people who are part of the government's current and retired civilian and military workforce. The budget deficit is the amount by which the government's spending exceeds its revenue, and thus, is a measure of how much the government has to borrow from the public. The budget deficit decreased $85 billion to $163 billion in 2007.

In 2007, a growing U.S. economy led to record revenue of $2.6 trillion. Chart 2 shows that government revenue increased steadily from 2003 through 2007, largely because of taxes on increasing individual incomes and corporate profits. Social Security tax revenue of $648 billion and Medicare tax revenue of $200 billion accounted for almost a third of total revenue. The recent slowing of U.S. economic growth will have an effect on 2008 revenue.

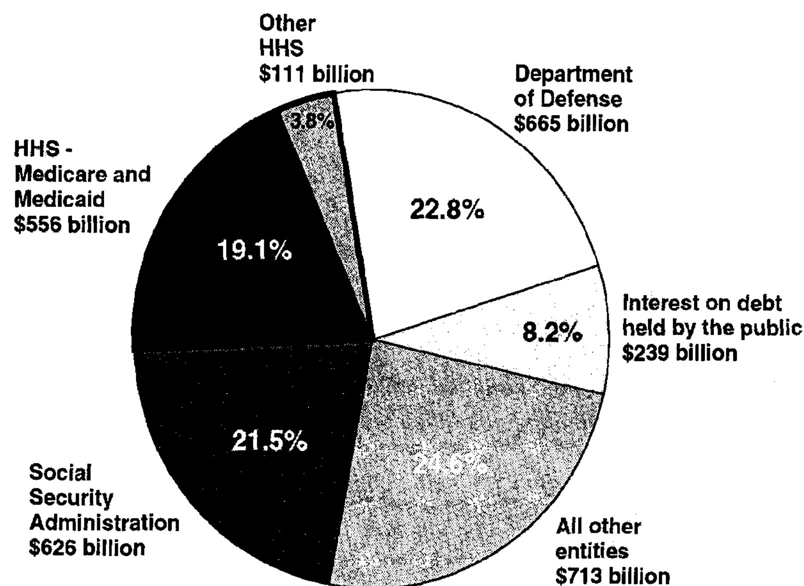
Chart 2: Government Revenue 2003-2007



[a]In the *Financial Report*, Social Security and Medicare tax revenue are combined with individual income tax revenue.

The government's net cost in 2007 was relatively constant compared to 2006. Chart 3 shows that in 2007, the Department of Health and Human Services (HHS), Department of Defense, and Social Security Administration, plus interest on debt held by the public, accounted for approximately three-fourths of the government's total net cost. Medicare cost of $368 billion and Medicaid cost of $188 billion accounted for more than 80 percent of HHS' total net cost in 2007.[4]

Chart 3: Government Net Cost 2007



The Debt

The government incurs debt when it borrows from the public to fund its budget deficits. The government also incurs debt when government funds invest their excess receipts in government securities. Of the government's total debt of about $9 trillion at the end of 2007, approximately $5 trillion was debt held by the public in the form of Treasury securities, such as bills, notes, and bonds. The public includes individuals, corporations, state and local governments, Federal Reserve Banks, and foreign governments.

The balance of the debt—nearly $4 trillion—was intragovernmental debt. This represents debt held by government funds, including the Social Security ($2.2 trillion) and Medicare ($359 billion) Trust Funds. These government funds are typically required to invest any excess annual receipts in federal securities. When the government borrows these excess receipts, it still has an obligation to repay them to the government funds with interest. If expected budget deficits continue, as the government funds redeem the federal securities to pay for benefits or other program cost, then additional borrowing from the public will likely be required.

[4] Medicare cost is net of related premium revenue.

Where We Are Headed

An Unsustainable Fiscal Path

The projected growth in spending for Social Security and Medicare benefits affects every citizen in the nation.[5] Scheduled benefits under these programs are expected to exceed dedicated revenue (e.g., payroll taxes and premiums) by more than $40 trillion (present value) over the next 75 years, under current laws and policy.[6] The fiscal imbalance is even larger looking beyond 75 years.[7] Moreover, without reform

- In **2007**, Medicare Part A benefit payments began to exceed the program's tax revenue.
- In **2011**, the Medicare Part A Trust Fund begins to decline as benefits exceed payroll taxes and trust fund interest.
- In **2017**, Social Security benefit payments will begin to exceed the program's tax revenue.
- In **2019**, Medicare Part A Trust Fund assets will not be enough to pay full benefits. Under current law, benefits would be reduced to 79 percent of scheduled benefits in 2019, declining to 29 percent by 2081.
- In **2027**, Social Security Trust Funds begin to decline as benefits exceed tax revenue and trust fund interest.
- In **2040**, federal debt held by the public will exceed the historical high of 109 percent of GDP.
- In **2041**, Social Security Trust Funds' assets will not be enough to pay full benefits. Under current law, benefits for all retirees would be reduced to 75 percent of scheduled benefits in 2041, declining to 70 percent by 2081.
- In **2080**, total government cost will be more than three times revenue.

---

[5]The dates and events described in this section are taken from the 2007 Annual Reports of the Social Security and Medicare Boards of Trustees and the *2007 Financial Report.*

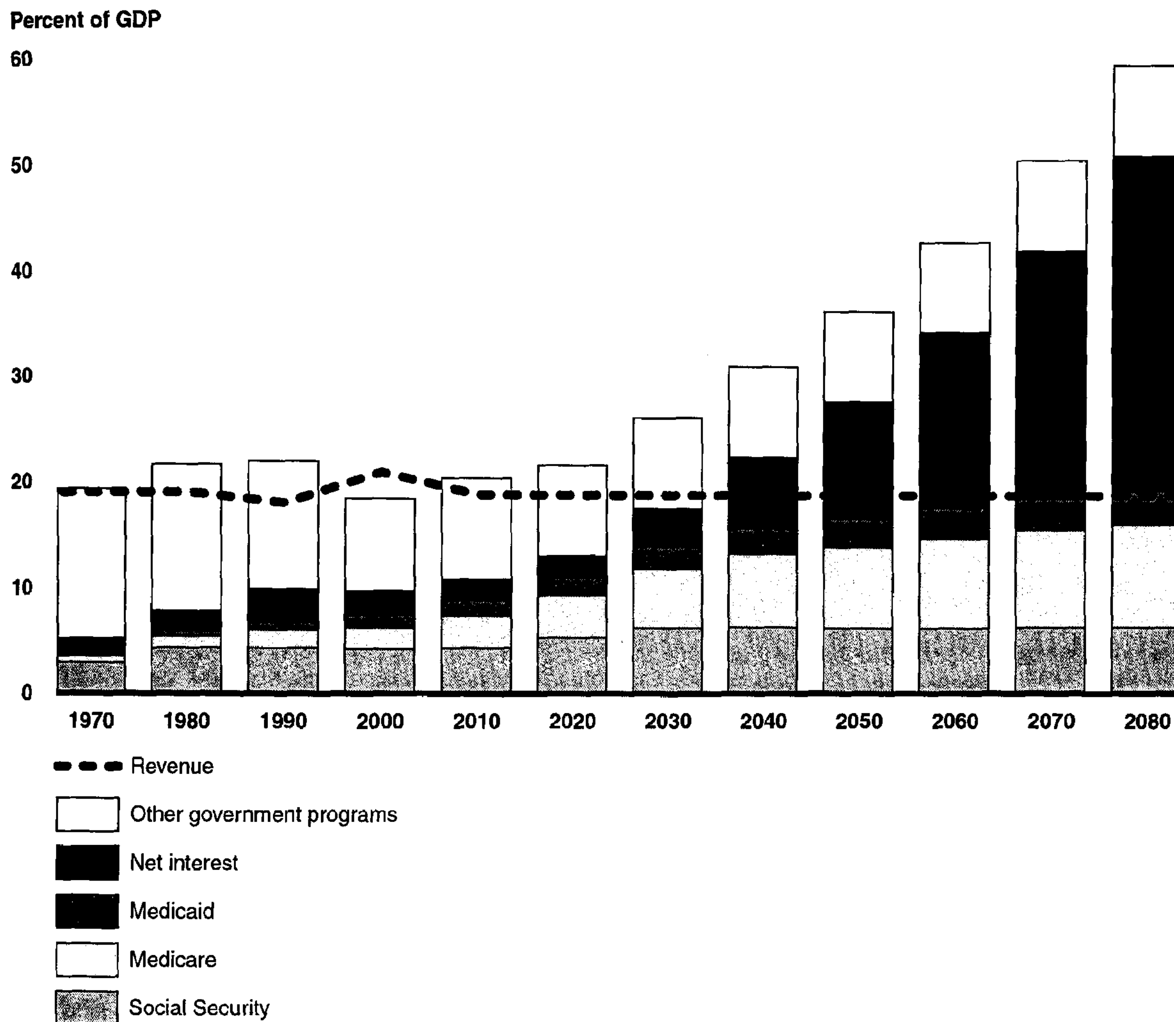
[6]This estimate, included in the fiscal year 2007 Statement of Social Insurance, may be found in the *2007 Financial Report.*

[7]The 75-year horizon includes the revenue from people working in the latter part of the 75-year period but not the associated benefits that will be paid when these same people retire after the end of the 75 years.

Fundamental Reforms Are Needed Now

Chart 4 shows government revenue and spending as a percent of GDP from 1970 through 2080.[8] Since World War II, federal revenue as a share of GDP has been roughly constant at around 18 percent.[9] Whenever taxes rose, policy actions tended to pull them back.

Chart 4: Government Revenue and Cost 1970-2080



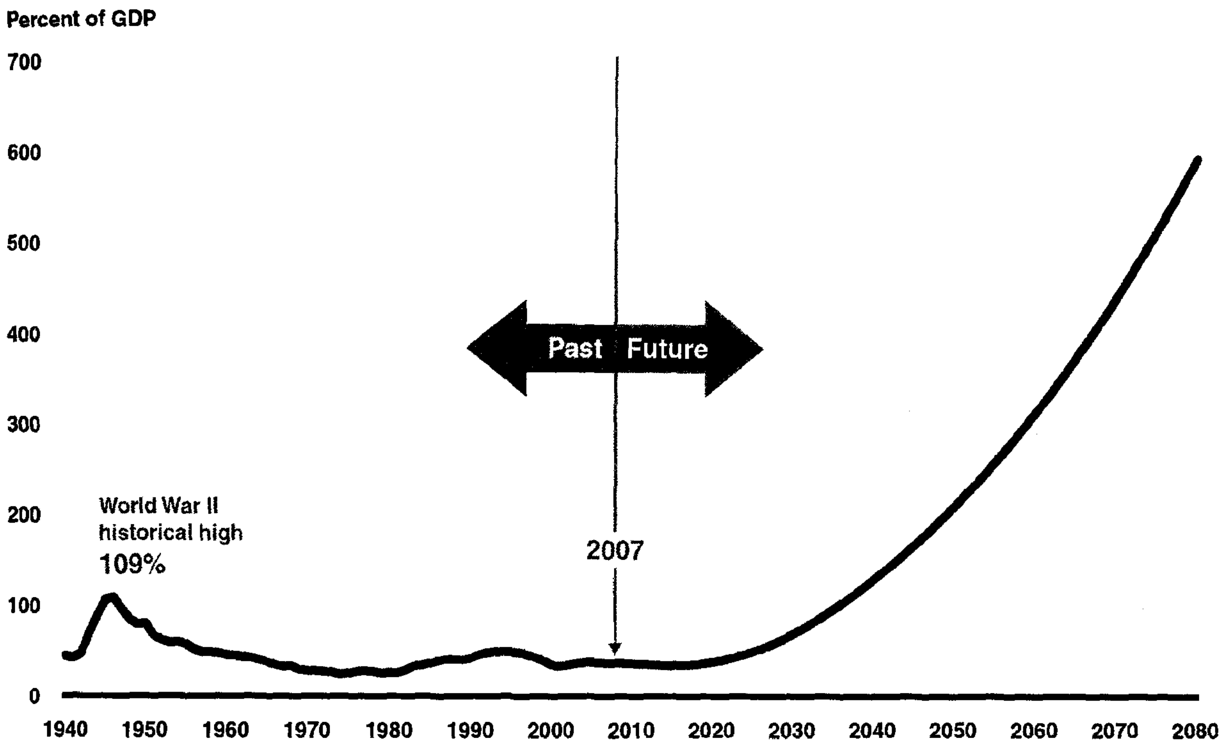
If revenue is held constant at about 18 percent of GDP (the historical average level), government spending will eventually exceed the government's ability to pay. By 2070, total government cost is projected to be 50 percent of GDP mainly because of mounting interest cost. Cost-to-GDP ratios have not been this high since World War II, when cost briefly reached 44 percent of GDP. By 2080, cost reaches nearly 60 percent of GDP, more than three times the average historical level of revenue as a percent of GDP. The dates and numbers would change with different forecasting assumptions, but under a wide range of reasonable projections, the increases in budget deficits will be dramatic.

[8]Projected spending is based on scheduled Social Security and Medicare benefits and current spending trends. Revenue as a percent of GDP from 2010 to 2080 is assumed to equal its historical average.

[9]GDP is one way of measuring the size of a nation's economy and is defined as the total market value of all final goods and services the nation produces in a given period. The projection that the government's revenue as a percent of GDP will remain relatively constant is based on historical data and trends that are not expected to change.

Chart 5 shows the extreme effect on the debt of projected budget deficits indicated in chart 4. These combined trends will cause government debt levels to more than triple by 2040 and to more than double again by 2060. The nation's debt could approach 600 percent of GDP by 2080. This far exceeds the historical high of 109 percent of GDP that occurred during World War II.

Chart 5: Federal Debt Held by the Public 1940-2080



The nation must change course before the deficit and debt reach unprecedented heights. The government must bring program cost in line with available resources. Delays in taking this action will increase the magnitude of the reforms needed and will place more of the burden on our children and grandchildren.

While the precise amounts of the government's financial responsibilities are far from certain—they are based on many complex calculations and assumptions, including life expectancies and health care cost—their magnitude and the need to control them are evident.

Looking Ahead

In the *2007 Financial Report*, the Secretary of the Treasury indicates that the nation must look to the future, particularly the spending demands of Social Security and Medicare, and squarely face the need for fundamental reform if these programs are to be sustained. The government must strive to make all disclosures transparent, provide all points of view with relevant data, and expand financial and fiscal reporting in order to explain why estimates of future Social Security and Medicare costs increase year after year.

The issues discussed in this guide affect, and should be of interest to, every citizen. The *Financial Report's* comprehensive reporting is intended to inform and support the decision-making needs of lawmakers and the public and to help keep the United States on solid financial ground.

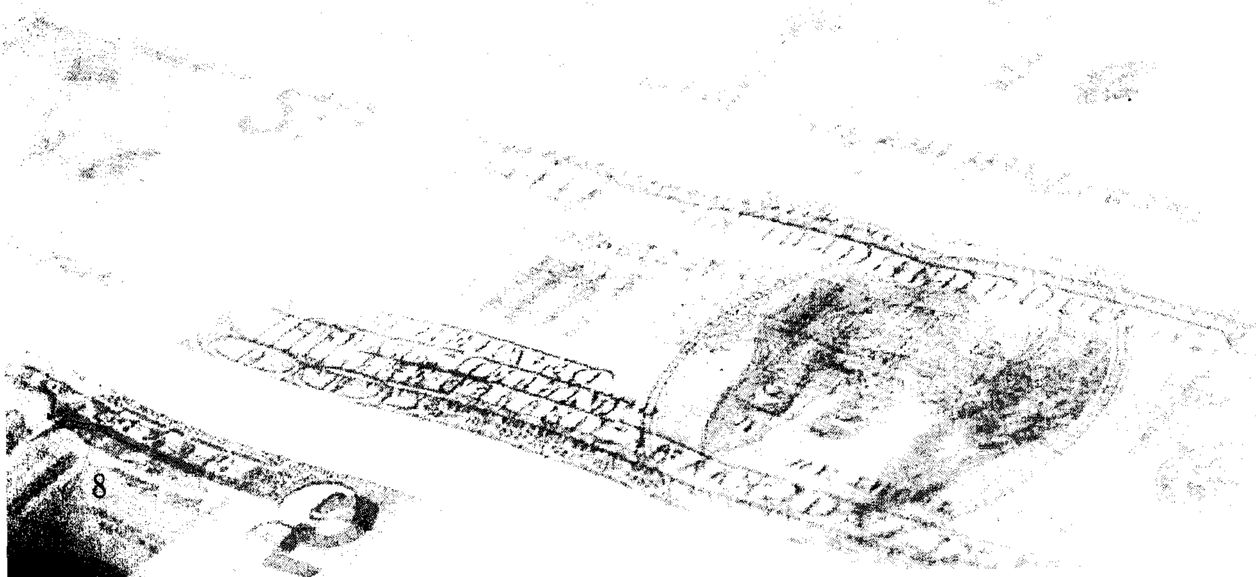
Finding Out More

You will find more detail on these matters in the *Financial Report.* You are encouraged to explore the information it contains and to ask questions about how the government manages taxpayers' money. The *2007 Financial Report of the United States Government* and other information about the nation's finances are available at:

- U.S. Department of the Treasury's Financial Management Service, http://www.fms.treas.gov/fr/index.html;
- OMB's Office of Federal Financial Management, http://www.whitehouse.gov/omb/financial/index.html; and
- GAO, http://www.gao.gov/financial/fy2007financialreport.html.

This guide can be obtained on-line at the above Web sites.

This Citizens' Guide highlights information in the *2007 Financial Report.* The Government Accountability Office's (GAO) complete audit report on the U.S. government's consolidated financial statements can be found beginning on page 159 of the *Financial Report.* For 2007, for the first time, GAO issued an unqualified or "clean" opinion on the Statement of Social Insurance. However, certain material financial reporting control weaknesses and other limitations on the scope of its work prevented GAO from expressing an opinion on the remaining financial statements.



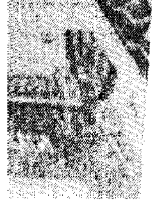


Image Sources

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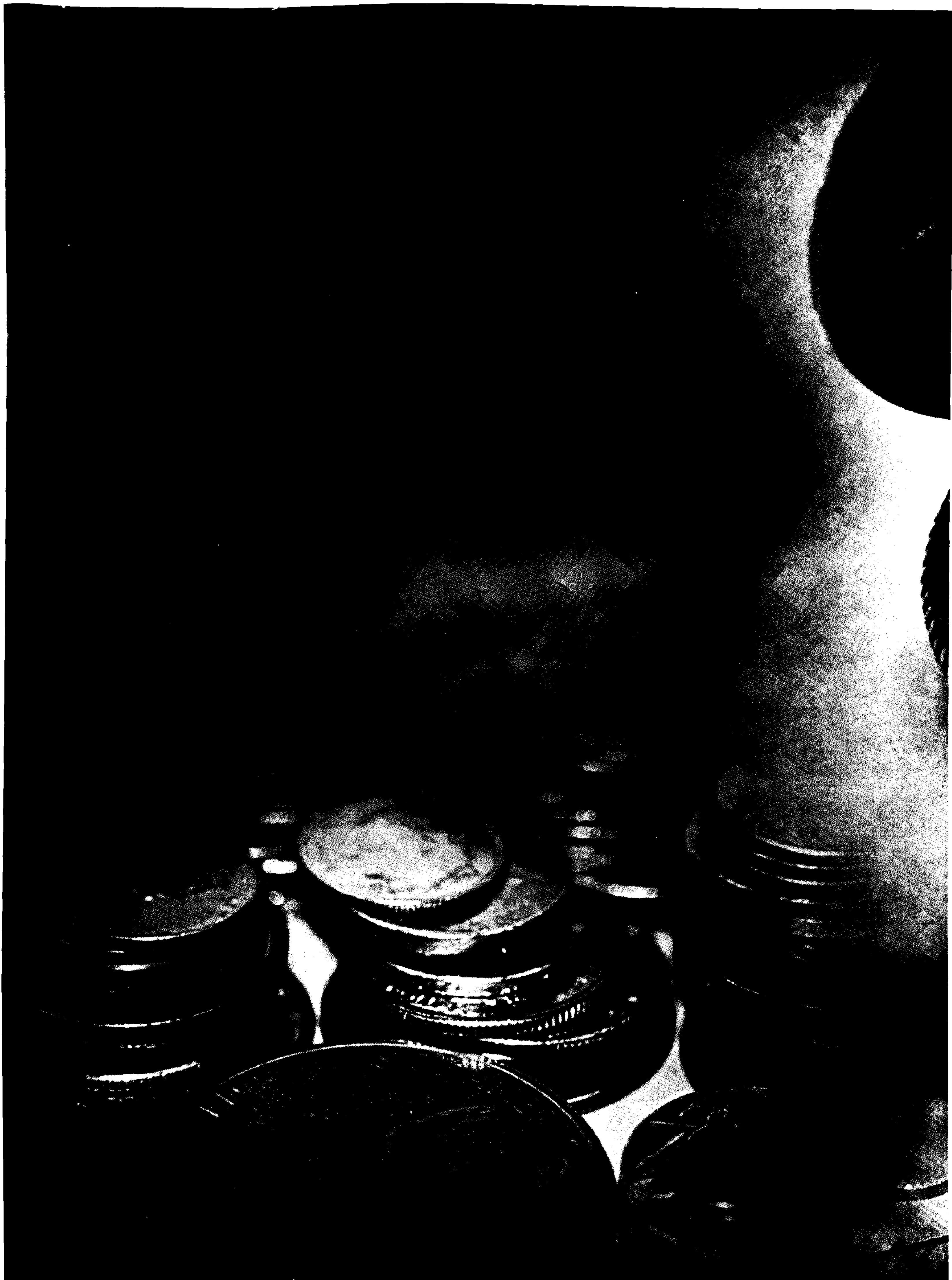

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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February 15, 2008
HP-831

Treasury International Capital (TIC) Data for December

Treasury International Capital (TIC) data for December are released today and posted on the U.S. Treasury web site (www.treas.gov/tic which will report on data for January, is scheduled for March 17, 2008.

Net foreign purchases of long-term securities were $56.5 billion.

- Net foreign purchases of long-term U.S. securities were $69.1 billion. Of this, net purchases by foreign official institutions were : purchases by private foreign investors were $33.3 billion.
- U.S. residents purchased a net $12.6 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $45.2 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $34.2 holdings of Treasury bills increased $15.5 billion.

Banks' own net dollar-denominated liabilities to foreign residents decreased $19.0 billion.

Monthly net TIC flows were positive $60.4 billion. Of this, net foreign private flows were positive $8.4 billion, and net foreign official flow billion.

-30-

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

				12 Months Through			
		2005	2006	Dec-06	Dec-07	Sep-07	Oct-(
	Foreigners' Acquisitions of Long-term Securities						
1	Gross Purchases of Domestic U.S. Securities	17157.5	21077.1	21077.1	29689.0	2332.7	2671
2	Gross Sales of Domestic U.S. Securities	16145.9	19933.9	19933.9	28683.2	2276.7	2553
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1011.5**	**1143.2**	**1143.2**	**1005.8**	**56.0**	**118**
4	**Private, net /2**	**891.1**	**946.6**	**946.6**	**818.1**	**27.7**	**96**
5	Treasury Bonds & Notes, net	269.4	125.9	125.9	198.1	11.6	45
6	Gov't Agency Bonds, net	187.6	193.8	193.8	107.0	2.3	4
7	Corporate Bonds, net	353.1	482.2	482.2	332.6	11.3	15
8	Equities, net	81.0	144.6	144.6	180.4	2.5	29

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 9 a.m. (EST), February 15, 2008
CONTACT Rob Saliterman, (202) 622-2960

TREASURY INTERNATIONAL CAPITAL DATA FOR DECEMBER

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TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2005	2006	12 Months Through Dec-06	12 Months Through Dec-07	Sep-07	Oct-07	Nov-07	Dec-07
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	17157.5	21077.1	21077.1	29689.0	2332.7	2671.9	2890.2	2312.8
2	Gross Sales of Domestic U.S. Securities	16145.9	19933.9	19933.9	28683.2	2276.7	2553.9	2819.9	2243.7
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1011.5**	**1143.2**	**1143.2**	**1005.8**	**56.0**	**118.0**	**70.3**	**69.1**
4	**Private, net /2**	**891.1**	**946.6**	**946.6**	**818.1**	**27.7**	**96.2**	**58.5**	**33.3**
5	Treasury Bonds & Notes, net	269.4	125.9	125.9	198.1	11.6	45.9	23.2	-9.5
6	Gov't Agency Bonds, net	187.6	193.8	193.8	107.0	2.3	4.8	20.6	-7.4
7	Corporate Bonds, net	353.1	482.2	482.2	332.6	11.3	15.6	10.5	29.3
8	Equities, net	81.0	144.6	144.6	180.4	2.5	29.9	4.3	21.0
9	**Official, net /3**	**120.4**	**196.6**	**196.6**	**187.7**	**28.3**	**21.8**	**11.8**	**35.8**
10	Treasury Bonds & Notes, net	68.7	69.6	69.6	3.0	14.4	4.0	0.4	11.0
11	Gov't Agency Bonds, net	31.6	92.6	92.6	119.1	9.2	10.0	6.0	4.1
12	Corporate Bonds, net	19.1	28.6	28.6	50.6	4.6	7.4	4.9	8.2
13	Equities, net	1.0	5.8	5.8	15.1	0.1	0.4	0.5	12.5
14	Gross Purchases of Foreign Securities from U.S. Residents	3700.0	5515.9	5515.9	8177.1	557.8	809.4	728.9	598.6
15	Gross Sales of Foreign Securities to U.S. Residents	3872.4	5766.8	5766.8	8400.5	598.8	813.5	708.3	611.2
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-172.4**	**-250.9**	**-250.9**	**-223.5**	**-41.0**	**-4.1**	**20.6**	**-12.6**
17	Foreign Bonds Purchased, net	-45.1	-144.5	-144.5	-128.6	-19.7	-9.1	11.0	-13.1
18	Foreign Equities Purchased, net	-127.3	-106.5	-106.5	-94.9	-21.3	5.0	9.6	0.5
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**839.1**	**892.3**	**892.3**	**782.3**	**15.0**	**113.9**	**90.9**	**56.5**
20	**Other Acquisitions of Long-term Securities, net /5**	**-143.0**	**-169.9**	**-169.9**	**-186.5**	**-20.6**	**-15.1**	**-11.2**	**-11.3**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**696.2**	**722.4**	**722.4**	**595.8**	**-5.6**	**98.9**	**79.7**	**45.2**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**-47.6**	**146.2**	**146.2**	**216.4**	**4.1**	**30.3**	**37.2**	**34.2**
23	**U.S. Treasury Bills**	**-58.9**	**-9.0**	**-9.0**	**49.2**	**-6.5**	**9.0**	**15.6**	**15.5**
24	Private, net	-15.6	16.1	16.1	29.9	-4.8	6.9	10.8	4.5
25	Official, net	-43.3	-25.0	-25.0	19.3	-1.8	2.2	4.8	11.1
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**11.4**	**155.1**	**155.1**	**167.1**	**10.6**	**21.3**	**21.5**	**18.6**
27	Private, net	10.6	174.9	174.9	91.0	1.7	1.3	4.3	17.6
28	Official, net	0.8	-19.8	-19.8	76.1	8.9	20.0	17.3	1.0
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**16.4**	**198.0**	**198.0**	**-119.2**	**-27.5**	**-39.4**	**34.0**	**-19.0**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**665.0**	**1066.5**	**1066.5**	**692.9**	**-29.0**	**89.7**	**150.8**	**60.4**
	of which								
31	Private, net	578.0	926.2	926.2	395.1	-42.2	48.1	105.8	8.4
32	Official, net	87.0	140.3	140.3	297.8	13.1	41.6	45.0	52.1

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

/2 Includes international and regional organizations

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

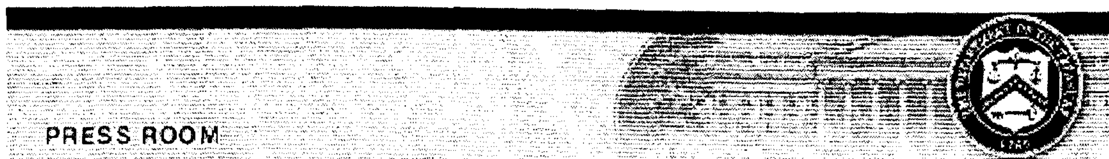
/4 Net transactions in foreign securities by U.S. residents. Foreign purchases of foreign securities = U.S. sales of foreign securities to foreigners. Thus negative entries indicate net U.S. purchases of foreign securities, or an outflow of capital from the United States; positive entries indicate net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

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

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

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

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



February 15, 2008
HP-832

Remarks by Treasury Under Secretary for International Affairs David H. McCormick at the Tuck Global Capital Markets Conference

Open Investment and America's Prosperity

Hanover, N.H. – Thank you, Paul for that warm introduction. I would like to thank you, Matt Slaughter, and the Tuck School for inviting me to this conference, and to all of you for joining us today.

The leadership here at the Tuck School was prescient, even clairvoyant, in scheduling a conference on global capital markets at this time – the timing could not be better. In recent weeks, we have seen the biggest stock market declines since 9/11. Volatility has spread to European, East Asian, and Indian capital markets, casting cold water on the notion of decoupling. And leaders around the world are resetting their expectations for how quickly their economies and the rest of the world will grow. We don't need our Bloomberg screens or Wall Street Journals to know that the gains enjoyed from globalization over the past decade may be difficult to replicate in the next one. All of us in this room have an obligation to understand the nature of the challenge and to rise to meet it.

The Case for Investment

Investment flows are one of the most important ways our economy benefits from globalization. As President Bush recognized in his May 2007 Open Economies Policy Statement, "a free and open international investment regime is vital for a stable and growing economy, both here at home and throughout the world."

The data supporting this assertion are staggering. While the headlines tend to focus on trade in goods and services, these flows are dwarfed by cross-border investment transactions. In 2006, for example, gross cross-border transactions in long-term securities involving U.S. and foreign residents totaled $52 trillion, compared to only $3.6 trillion in U.S. exports and imports of goods and services.

What holds true for the United States holds true globally. Between 1991 and 2005, the World Bank's measure of global private capital flows increased by 500 percent, almost twice as fast as trade flows. Looked at another way, daily foreign exchange transactions have increased over 26 years from $880 billion in 1992 to $3.2 trillion today. If we include transactions in financial derivatives, that figure rises to over $5 trillion daily.

The benefits we gain from international investment in the United States are as important as its volume. You know the argument, and Matt's recent insourcing study has provided great analytical underpinning to it, but the story bears repeating. International investment in the United States fuels U.S. economic prosperity by creating well-paid jobs, bringing new technology and business methods, helping finance U.S. priorities, and providing healthy competition that fosters innovation, productivity gains, lower prices, and greater variety for consumers.

In 2006, foreign-owned firms contributed almost six percent of U.S. output and 14 percent of U.S. R&D spending. They re-invested over half of their U.S. income – $71 billion – back into the U.S. economy and made 13 percent of U.S. tax payments. This activity, in turn, creates jobs. Nearly one in 10 U.S. private sector jobs, in fact, are created by those foreign firms. U.S. affiliates of foreign firms

employ over five million Americans and generate some five million more jobs indirectly. And these are good jobs, paying on average 25 percent higher wages.

At the same time, the U.S. economy and U.S. workers benefit from the ability of American firms to invest abroad. In 2005, U.S. multinationals exported $491 billion, accounting for more than 54 percent of total U.S. exports. Nearly half of this amount, $189 billion, was exported to their foreign affiliates. Moreover, U.S. multinationals accounted for over half of U.S. productivity growth between 1977 and 2000.

That's the good news. That is why President Bush, in his May 2007 open economies statement, also pledged that, "the United States unequivocally supports international investment in this country and is equally committed to securing fair, equitable, and nondiscriminatory treatment for U.S. investors abroad."

Now for the challenge that brings us together today. Simply stated, the gains won thus far cannot be taken for granted. Indeed, they are under threat. Globalization can sometimes result in winners and losers. For example, the same forces that create the benefits from global capital markets also create the risks inherent in global interdependence. As a consequence of this phenomenon, some actors, such as China and the oil-producing states, have gained new prominence through their trade flows, accumulation of reserves, and creation of sovereign wealth funds, shifting perceptions of the balance of economic power. Globalization has enabled the pie to grow much bigger for all, but the benefits of globalization are unfortunately viewed by some as a zero-sum game, fueling the forces of protectionism.

The risks are real. Protectionist pressures leading to greater restrictions on international investment, whether here or abroad, would weaken the United States. We would lose out to other countries in the competition for international investment and the benefits it brings. This would present Americans with painful choices regarding taxes, government programs, and personal savings and consumption. It would also have broader international implications. If America turned inward, other countries could, and likely would, impose restrictions on U.S. investors, jeopardizing the growing domestic benefits generated by American businesses that operate globally.

And so we are in the midst of a critical debate, and we must individually and collectively press forward to win it. By "winning," I mean protecting and in some cases expanding the principles of openness that have paved the way to our current prosperity. We must avoid the well-known mistakes of the 1930s, in which economic turmoil was met by economic insularity. With this in mind, I'd like to spend the remainder of our conversation touching on three areas in particular where the government's role in investment policy is both important and timely:

- Developing policy responses to the financial market and investment policy issues raised by sovereign wealth funds;
- Addressing the national security aspect of foreign investment in the United States and around the world; and
- Negotiating bilateral investment treaties to give our firms greater access to foreign markets.

Sovereign Wealth Funds

Sovereign wealth funds have garnered the most column inches recently, so let me start with them. Current opinion seems divided as to whether sovereign wealth funds are part of the problem or part of the solution to the challenges we face. Not surprisingly, from my vantage point, the answer is "that depends" – it depends on whether government policies and the practices of sovereign wealth fund managers foster openness and market-based decision-making or insularity and investment with ulterior motives.

While sovereign wealth funds have recently generated significant attention, they have in fact been around for decades. The oldest, in Kuwait and Kiribati, date back

to the 1950s. Three of the largest and most respected funds – the Abu Dhabi Investment Authority, Singapore's Government Investment Corporation, and Norway's Government Pension Fund-Global – were founded in 1976, 1981, and 1990, respectively. By 2000, there were about 20 sovereign wealth funds worldwide managing total assets of several hundred billion dollars.

What is new today is the rapid increase in both the number and size of sovereign wealth funds. Twenty new funds have been created since 2000, more than half of these since 2005, bringing the total number to nearly 40 funds that manage $1.9-2.9 trillion in assets with some private sector analysts projecting that sovereign wealth fund assets could grow to $10-15 trillion by 2015.

Two trends have contributed to this ongoing growth. The first is sustained high commodity prices, especially for oil. The second is the accumulation of official reserve assets in non-commodity exporting countries and the subsequent transfer of a portion of these assets to government investment vehicles such as sovereign wealth funds.

To get a better perspective of the relative importance of sovereign wealth funds, it is useful to consider how they measure up against private pools of global capital. Total sovereign wealth fund assets of $1.9-2.9 trillion may be small relative to the $190 trillion in global financial assets as of end-2006, or the roughly $62 trillion managed by private institutional investors. But sovereign wealth fund assets are currently larger than the total assets under management by either hedge funds or private equity funds (estimated at $1.5 trillion and $700 billion, respectively), and are set to grow at a much faster pace.

Sovereign wealth funds can promote financial stability. They are, in principle, long term, stable investors that provide significant capital to the system. They are typically not highly leveraged and cannot be forced by capital requirements or investor withdrawals to liquidate positions rapidly. As public sector entities, sovereign wealth funds should have an interest in and a responsibility for financial market stability. All of this is in addition to the impact on economic growth of the investments themselves.

At the same time, transactions involving sovereign wealth fund investment may raise legitimate national security concerns, as well as a number of non-national security issues. For example, through inefficient allocation of capital, unfair competitive advantage, or through the pursuit of broader strategic rather than strictly economic return-oriented investments, sovereign wealth funds could potentially distort markets. On the financial markets side, sovereign wealth funds can represent large, concentrated, and often non-transparent positions in certain markets and asset classes that have the potential to affect market stability.

An important starting point for any discussion on sovereign wealth funds must begin with the recognition that there is little evidence of any of this behavior. With this in mind, the Treasury Department is taking active steps to better understand, and where appropriate, to act on this developing phenomenon. This is the most effective way to push back on a significant risk associated with sovereign wealth funds – the rise of protectionism.

First, Treasury has taken a number of steps internally and within the U.S. government to enhance our understanding of sovereign wealth funds. Treasury has created a working group on sovereign wealth funds that draws on the expertise of Treasury's offices of International Affairs and Domestic Finance. Treasury's market room is ensuring vigilant, ongoing monitoring of sovereign wealth fund trends and transactions on a real-time basis. Through the President's Working Group on Financial Markets, chaired by Secretary Paulson, we continue to discuss and review these funds. In addition, we have initiated bilateral outreach to ensure an ongoing and candid dialogue with countries with significant sovereign wealth funds and their management. Finally, we provide semi-annual updates to Congress on our sovereign wealth fund-related work in the Report on International Financial and Exchange Rate Policies.

Second, we are reaching out to other countries to make sure that we are all on the same page. For example, last May, Treasury hosted a G-20 workshop on commodity cycles and financial stability which included a session on sovereign wealth funds. At last October's G-7 meetings in Washington, Secretary Paulson hosted a G-7 outreach dinner with Finance Ministers and heads of sovereign wealth funds from eight countries – China, Korea, Kuwait, Norway, Russia, Saudi Arabia, Singapore, and the United Arab Emirates – to build support for a set of best practices for sovereign wealth funds.

Third, Treasury has proposed that the international community collaborate on a multilateral framework for sovereign wealth fund best practices. At the IMF, we are working to develop best practices for sovereign wealth funds that can build on existing IMF guidelines for foreign exchange reserve management. A framework for thinking about best practices might include: investing commercially, not politically; competing fairly with the private sector; promoting international financial stability; and, respecting host country rules.

Understanding that investment is a two-way street, we are encouraging the Organization for Economic Cooperation and Development to identify investment policy best practices for countries that receive foreign government-controlled investment, including investment from sovereign wealth funds. This effort would complement the extensive work already underway at the OECD on open investment and national security. Investment policy best practices should focus on avoiding protectionism, and should be guided by the well-established principles of proportionality, predictability and accountability embraced by the OECD and its members for the treatment of foreign investment. We hope to achieve results later this year that may serve as a touchstone to guide countries that receive sovereign investments.

Committee on Foreign Investment in the United States

On this and broader issues, we are working within the Committee on Foreign Investment in the United States, known as CFIUS, to ensure sovereign wealth fund investments do not harm on our national security. CFIUS, which Treasury chairs, reviews certain foreign direct investments that may raise national security considerations.

National security is paramount, and we take this responsibility very seriously. At the same time, national security must not be used as an excuse for pursuit of protectionist policies, industrial policy, or the creation of national champions. Investment reviews must be strictly limited to genuine national security concerns, not broader economic or national interests. The legal regime governing foreign investments should be predictable, and, when a particular transaction poses genuine risk to national security, the policy response should be fair and proportional to the incremental risk.

Recent reforms have strengthened the CFIUS process and reinforced our longstanding commitment to open investment. Congress made its open investment intention explicit with the passage of the Foreign Investment and National Security Act of 2007, known as FINSA. President Bush also reiterated the U.S. open investment policy at the beginning of an executive order he issued on January 23, 2008, to strengthen the CFIUS process.

The new statute and the recent executive order signed by President Bush maintain CFIUS's focus solely on genuine national security concerns and allow CFIUS to seek risk mitigation measures only when existing laws are not adequate and appropriate. As a result, the CFIUS footprint is small, but very important. In 2007, CFIUS reviewed fewer than eight percent of M&A transactions in the United States involving a foreign acquirer and a domestic firm. Over 80 percent of the transactions that CFIUS reviewed made it through the process within 30 days with only a small minority requiring a second phase investigation or mitigation measures.

We are committed to continuing to streamline the CFIUS process to ensure that it provides needed scrutiny to the small number of investments with national security

implications without unduly delaying investments or introducing unpredictability into the system. We are preparing revised regulations to further implement the new law, and as required by Congress, we will also publish guidance in the spring on the types of transactions that have raised national security concerns in the past. This will give investors further insight into the process.

These steps have positioned us well to encourage other countries, such as China, Germany, Canada, and Russia, to not use concerns about national security or sovereign wealth funds to create protectionist barriers to investment. We are setting the example with a measured approach that protects national security while adhering to open investment principles.

Bilateral Investment Treaties

Finally, let me turn to a perhaps less high-profile – but extraordinarily important – way in which we can reinforce an open investment climate. I am referring to U.S. bilateral investment treaties. Bilateral investment treaties, known as "BITs," operationalize U.S. support for open investment, both here and abroad, by locking in open investment policies and ensuring progressive liberalization. They eliminate investment barriers and prevent new barriers from arising.

These treaties support investment liberalization by ensuring a minimum and predictable level of fair and equitable treatment based on customary international law, including protection against denial of justice by courts or administrative tribunals. BITs prohibit costly performance requirements, such as technology transfer requirements; protect the right to remit investment returns; and permit expropriation only in accordance with the standards of international law. Perhaps most importantly, they give investors a right to go to international arbitration to enforce the treaty's commitments, while insulating the U.S. government from investment disputes abroad. I won't go through the whole list of BIT provisions, but I think the business people in this room will agree with me that this basic blocking and tackling is essential to expanding U.S. and international investment flows.

We currently have bilateral investment agreements with 40 countries. Each one is a small step forward in realizing the benefits of globalization with the explicit objective of enhancing the free flow of investment. These are victories for both sides. Studies show that foreign firms bring new products and processes to the host countries, enhancing productivity, bringing new and better jobs, and improving services for domestic firms. By signing a high-standard U.S. BIT, the treaty party sends a clear message that it welcomes U.S. investment and is prepared to stand by enforceable commitments to an open investment regime. As well, by signing a BIT, the United States reinforces its long-standing commitment to an open investment regime.

We are seeking more such victories. Exploratory discussions are underway with rising economic powers such as China, Russia, and India – three of the so-called "BRICS." U.S. firms are already investing in these three markets at a rate two-and-a-half times that with the rest of the world. As a result, between 2001 and 2006, U.S. investment in them rose from $15.4 billion to $41.1 billion. BITs are an important next step to protect these existing investments. They also encourage new flows by providing greater assurances against discriminatory treatment; securing the ability to maintain, operate and expand investments; and ensuring that U.S. companies benefit from policy liberalization in these fast-growing countries.

The Way Forward

Each of the areas I've touched on today – sovereign wealth funds, the CFIUS process, and Bilateral Investment Treaties – is at the forefront of an open investment campaign that must be waged to hold the forces of protectionism at bay. But this campaign is far too big for government alone. We can set the stage, and we can provide the rules. We can cajole and encourage others to take the right steps.

But we need your help. We need your assistance in telling the story about the benefits of open investment. We need your support in reinforcing the importance of

reasoned investment policies in areas like sovereign wealth funds, national security reviews and bilateral investment treaties. We need your enthusiasm for advocating your views on investment with policymakers at home and abroad, within Washington and within your homes states. Together, we must make the case to America that open investment is a competitive advantage.

Thank you for your kind attention.

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PRESS ROOM

February 19, 2008
HP-833

Secretary Paulson Statement on HOPE NOW Adoption of Project Lifeline

Washington- Treasury Secretary Henry M. Paulson, Jr. released the following statement today regarding the HOPE NOW Alliance's adoption of Project Lifeline as one method of reaching the most vulnerable homeowners.

"I am impressed with the HOPE NOW Alliance's swift adoption of Project Lifeline. Just last week we saw six servicers take the lead and agree to this initiative. Now that all HOPE NOW members have signed on, more than 90 percent of the subprime servicing market and nearly 70 percent of the entire mortgage servicing market is committed to this coordinated method of reaching more homeowners. Project Lifeline is one more means of helping homeowners, and combined with the other parts of HOPE NOW's outreach, these initiatives can make a measurable difference. I look forward to seeing reports of the impact of these commitments."

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PRESS ROOM

February 20, 2008
2008-2-20-13-50-2-7168

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $71,596 million as of the end of that week, compared to $71,234 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	February 15, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			71,596
(a) Securities	14,654	11,898	26,552
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	14,480	5,837	20,317
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	4,201		
(3) SDRs	9,485		
(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)	71,596
--currencies in SDR basket	71,596
--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.

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

end.

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

February 21, 2008
HP-834

Rami Makhluf Designated for Benefiting from Syrian Corruption

Washington, DC – The U.S. Department of the Treasury today designated Rami Makhluf, a powerful Syrian businessman and regime insider whom improperly benefits from and aids the public corruption of Syrian regime officials. This action was taken today pursuant to Executive Order 13460, which targets individuals and entities determined to be responsible for or who have benefited from the public corruption of senior officials of the Syrian regime.

"Rami Makhluf has used intimidation and his close ties to the Asad regime to obtain improper business advantages at the expense of ordinary Syrians," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "The Asad regime's cronyism and corruption has a corrosive effect, disadvantaging innocent Syrian businessmen and entrenching a regime that pursues oppressive and destabilizing policies, including beyond Syria's borders, in Iraq, Lebanon, and the Palestinian territories."

Syria is well known for its corrupt business environment, which denies the Syrian people economic prosperity and other freedoms. The considerable role the Asad family, their inner circle, and the Syrian security services exert over the economy, coupled with the absence of a free judicial system and the lack of transparency, concentrates wealth in the hands of certain classes and individuals. In turn, these classes and individuals depend upon this corrupt system for their success and fortune. Syrians without these connections are unable to improve their economic standing, and suffer as a result of policies implemented by an unaccountable regime.

President George W. Bush issued E.O. 13460 on February 13, 2008 to take additional measures to address the threat to the national security, foreign policy, and economy of the United States posed by certain conduct of the Government of Syria.

This new authority builds on E.O. 13338, which was issued by President Bush in May 2004, by targeting activities that entrench and enrich the Syrian regime and its cohorts thereby enabling the regime to continue to engage in threatening behavior, including actions that undermine efforts to stabilize Iraq. Corruption by the regime also reinforces efforts that deny the people of Syria political freedoms and economic prosperity, undercut peace and stability in the region, fund terrorism and violence, and undermine the sovereignty of Lebanon.

Pursuant to E.O. 13460, any assets that Makhluf holds under U.S. jurisdiction will be frozen, and U.S. persons are prohibited from engaging in business or transactions with Makhluf.

Identifying Information

Rami Makhluf
AKAs: MAKHLOUF, Rami
MAKHLOUF, Rami Bin Mohammed
MAKHLOUF, Rami Mohammad
DOB: July 10, 1969
POB: Syria
Passport Number: Syrian, 98044

Rami Makhluf is a powerful Syrian businessman who amassed his commercial empire by exploiting his relationships with Syrian regime members. Makhluf has manipulated the Syrian judicial system and used Syrian intelligence officials to intimidate his business rivals. He employed these techniques when trying to acquire exclusive licenses to represent foreign companies in Syria and to obtain contract awards.

Makhluf is the maternal cousin of President Bashar al-Asad and through this relationship, Makhluf has become a focal point of Syria's telecommunications, commercial, oil, gas and banking sectors. Despite President Asad's highly publicized anti-corruption campaigns, Makhluf remains one of the primary centers of corruption in Syria.

Makhluf's influence with certain Syrian government officials has led to his being able to control the issuance of certain types of profitable commodities contracts. His close business associations with some Syrian cabinet ministers have enabled him to gain access to lucrative oil exploration and power plant projects. Makhluf's preferential access to Syrian economic sectors has led to complaints about him from members of the Syrian business community.

Makhluf is the brother of Syrian General Intelligence Directorate official Hafiz Makhluf, who was previously designated under E.O. 13441.

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February 22, 2008
HP-835

Under Secretary David H. McCormick to Deliver Remarks on IMF Reform

Treasury Under Secretary David H. McCormick will deliver remarks on Monday at the Peter G. Peterson Institute for International Economics on IMF Reform.

- **What** Remarks on IMF Reform: Meeting the Challenges of Today's Global Economy
- **When** Monday, February 25, 12:30 p.m. EST
- **Where** C. Fred Bergsten Conference Center
  Peter G. Peterson Institute for International Economics
  1750 Massachusetts Avenue, NW
  Washington, DC
- **Note** RSVP required to Katharine Keenan at kkeenan@petersoninstitute.org

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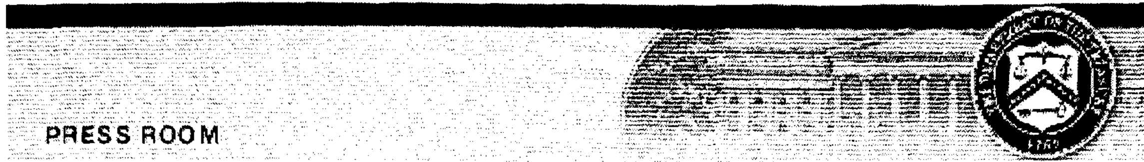

February 25, 2008
hp-836

Remarks by Treasury Assistant Secretary for International Affairs Clay Lowery at Barclays Capital's 12th Annual Global Inflation-Linked Conference

Key Biscayne, Fla. – Thank you very much for that kind introduction. I am pleased to be here with you today to discuss an increasingly important topic: the role of sovereign wealth funds in the global economy. We have been working on this topic at the Treasury Department for well over a year now. This morning, I would like to take you through the key elements of our approach, and share with you some our latest thinking.

Let me start by saying that sovereign wealth funds are here to stay. If we can accept this statement, the first question we have to face as policy makers is what, if anything, to do about them. And here I think there is really only one answer: the international community must work toward the smooth integration of sovereign wealth funds into the international financial system. In helping to craft an international response to the issues raised by sovereign wealth funds, our primary objective at the Treasury Department has been and will continue to be to ensure an open and stable international financial system.

Context

At Treasury, we have defined sovereign wealth funds as government investment vehicles funded by foreign exchange assets and managed separately from official reserves. Although the term "sovereign wealth fund" was coined just a few years ago, the funds it describes are not new. Sovereign wealth funds have existed in various forms for decades in places as diverse as the central Pacific, Southeast Asia, Europe and the Persian Gulf.

Today, what is new is the rapid growth in both the number and size of sovereign wealth funds. Twenty years ago, there were a few funds managing total assets of several hundred billion dollars. Now there are as many as 40 sovereign wealth funds worldwide, collectively managing assets of roughly $2-3 trillion. While any projection of the future growth of sovereign wealth funds is of course dependent on assumptions about commodity prices and exchange-rate policies, some private sector analysts have projected that aggregate sovereign wealth fund assets will reach $10-15 trillion by 2015, implying an average annual growth rate of at least $1 trillion.

To get a better sense of the relative importance of sovereign wealth funds, it is useful to consider how they measure up to private asset markets and investment vehicles. Total sovereign wealth fund assets of $2-3 trillion may be small relative to the $190 trillion in global financial assets as of end-2006, or the roughly $62 trillion managed by private institutional investors. But sovereign wealth fund assets are currently larger than the total assets under management by either hedge funds or private equity funds (estimated at $1.5 trillion and $700 billion, respectively). While it is possible to make SWFs appear large or small depending on the metric, it is clear that they have already attained systemic significance.(1)

Conceptually, it is helpful to classify sovereign wealth funds into commodity and non-commodity funds, depending on the source of foreign exchange assets.(2) One key difference between the two types of funds is their asset-liability structure. Commodity SWF assets often derive from foreign currency accruing directly to the government, whereas non-commodity fund assets often derive from at least partially sterilized exchange rate intervention.

Another way to see how these two types of funds differ is to consider whether they may perpetuate undesirable economic policies. This is not a significant concern in

commodity exporting countries, which are essentially replacing a physical asset in the ground with a financial asset to cover future expenditures. Whereas in non-commodity exporting country, it is important that they do not use a sovereign wealth fund as a means of further accumulating foreign assets in an effort to avoid appreciation of the local currency. Most observers are of the view that official reserves in this group of countries are sufficient by standard metrics of reserve adequacy, and greater exchange rate flexibility is often necessary.

Issues

The growth of sovereign wealth funds clearly has implications for the international financial system. These generally fall into two categories: financial market issues and investment issues.

As many observers have recognized, sovereign wealth funds have the potential to promote financial stability. They generally have a good track record as stable, long-term investors that provide significant capital to the system. Their long-term investment horizon should enable them to maintain their strategic asset allocations amid periods of short-term volatility. Sovereign wealth funds typically do not use leverage or have capital requirements that could force them to liquidate positions rapidly. Sovereign wealth funds often invest through well-regarded private fund managers and custodians

That does not mean, however, that there is nothing to think about. Sovereign wealth funds represent large, concentrated, and often non-transparent positions in financial markets, with the potential to move markets. Actual shifts in their asset allocations can cause price volatility. Even rumors of shifts may cause market participants to react to what they perceive sovereign wealth funds to be doing.

Of course, it is in the area of investment policy, that most of the attention to SWFs has been directed. There are two sets of issues to consider.

First, transactions involving investment by sovereign wealth funds, as with other types of foreign investment, may raise legitimate national security concerns. Countries that receive sovereign wealth fund investment need to ensure that national security concerns are addressed, without unnecessarily limiting the benefits of an open economy. Our experience with the Committee on Foreign Investment in the United States, known as CFIUS, shows that it is possible to safeguard national security while continuing to welcome foreign investment. CFIUS, which Treasury chairs, reviews foreign direct investments that result in foreign control of U.S. businesses and which may raise national security considerations. Since CFIUS began reviews in 1988, its caseload has included numerous foreign government-controlled investments, including by sovereign wealth funds. At the same time, national security should not be used as an excuse for pursuit of protectionist policies, industrial policy, or the creation of national champions.

Second, sovereign wealth funds raise a number of non-national security investment issues related to potential distortions from a larger role of foreign governments in markets. For example, through inefficient allocation of capital, perceived unfair competition with private firms, or the pursuit of broader strategic rather than strictly economic return-oriented investments, sovereign wealth funds could potentially distort markets. Sovereign wealth funds may also indirectly invest abroad through domestic state-owned enterprises. However, such action by a SWF is more likely to be viewed as a direct extension of government policy.

There are those who say that sovereign wealth funds should not be allowed to vote their shares when they take a non-controlling stake in a U.S. company. I think this goes too far. Most – but not all – classes of equity securities allow their owner to vote on major matters of corporate policy and the board of directors. That is one of the most fundamental rights of ownership in U.S. corporations. It is integral to the vitality and attractiveness of our capital markets.

It is perfectly legitimate, though, to consider how this applies in the sovereign wealth fund context. I think there are two perfectly defensible paths for sovereign wealth funds. First, some sovereign wealth funds have an explicit policy not to vote their shares. This may also be the case for some central banks that hold a portion of official foreign exchange reserves in the form of equities. The Swiss National

Bank, for example, explicitly states that it usually does not exercise its voting rights at annual shareholder meetings. Sovereign wealth funds that choose not to vote their shares may be motivated by a desire to keep a certain distance from matters of business operation and potential political concerns – but that is for them to say. Whatever the motivation, their choice not to vote their shares should be respected.

Second, other sovereign wealth funds choose instead to vote their shares, viewing the exercise of shareholder voting rights as instrumental to creating value in the corporation over the medium term. This choice should also be respected. However, in looking at both a large sovereign wealth fund (Norway's Government Pension Fund-Global) and a large U.S. state pension fund (CalPERS) which exercise their voting rights, two things stand out. One is the utility of laying out in advance the broad policies that guide how the fund votes, in order to avoid undue, unwelcome surprises. Another is the utility of disclosing the actual votes themselves, so that outside observers can assess whether the fund is following its stated broad policies.

It is also worth noting that the U.S. Securities and Exchange Commission passed a rule in 2003 requiring mutual funds to disclose proxy voting policies and records. Just as the 2003 rule seeks to address investors' concerns about real or perceived economic conflicts of interests through transparency, I think SWFs' voluntary disclosure of voting policies and voting records, in the context of best practices, may help mitigate concerns about real or perceived conflicts between economic and political interests that can arise with large cross-border government investment vehicles like SWFs. Experience with mutual funds in the United States suggests the overall costs of disclosure are minimal.(3)

The investment policy issues I have just described – both the national security and non-national security issues – have the potential to provoke protectionist responses from recipient country governments. It is my view that protectionist sentiment stems partly from a lack of information and understanding of sovereign wealth funds, which in turn is partly due to a lack of transparency and clear communication on the part of many of the funds themselves. Further, concerns about cross-border investment by state-owned enterprises are often misdirected at sovereign wealth funds as a group. Better information and understanding on both sides of the investment relationship is therefore needed.

As for the Bush Administration approach to investment – I can be unequivocal – we stand for open investment. As President Bush said in his May 2007 Open Economies Policy Statement, "a free and open international investment regime is vital for a stable and growing economy, both here at home and throughout the world." International investment in the United States fuels our prosperity by creating well-paying jobs, bringing new technology and business methods, helping finance U.S. priorities, and providing healthy competition that fosters innovation, productivity gains, lower prices, and greater variety for consumers. In 2006, foreign owned firms contributed almost six percent of U.S. output and 14 percent of U.S. R&D spending. Nearly one in ten U.S. private sector jobs is created or supported by these firms. U.S. affiliates of foreign-owned firms employ over five million Americans, paying on average 25 percent higher wages than the U.S. private sector average, and support approximately the same number of jobs indirectly.

Policy Approach

The Department of the Treasury is leading an effort with other U.S. government agencies to shape an appropriate international policy response to the financial market and investment issues raised by sovereign wealth funds. Our approach is based on the belief that both sovereign wealth funds and the countries in which they invest have a strong stake in ensuring a stable international financial system that remains open to investment.

Treasury Deputy Secretary Kimmitt has provided a guide to the way forward by outlining last month in Foreign Affairs magazine two sets of principles for discussion: one set for sovereign wealth funds and the other for countries in which they invest.(4) As a policy maker in a country that is a potential investment destination, we must keep in mind that we have responsibilities and they start with four guiding principles. First, avoid protectionism. Countries should not erect counterproductive barriers to investment, regardless of whether the investor holds a controlling interest in national firms. Second, uphold fair and transparent investment frameworks. Investment policies and processes, especially those involving national

security considerations, should be public, clearly articulated, predictable, and nondiscriminatory. Third, within those frameworks, respect investor decisions. Having laid out the ground rules, recipient countries should not tell sovereign wealth funds how to invest their money. Decisions on how to allocate investments across countries and asset classes are for the funds' managers alone, particularly given the potential for losses as well as gains. Finally, treat investors equally. Tax and regulatory policies should not discriminate between foreign and domestic entities.

As for sovereign wealth funds, I would also suggest four guiding policy principles. First, invest commercially, not politically. Sovereign wealth fund investment decisions should be based solely on economic grounds, rather than political or foreign policy considerations. Sovereign wealth funds should make this statement a formal part of their basic investment management policies. Second, convey world-class institutional integrity. Sovereign wealth funds should be transparent about their investment policies and have strong risk-management systems, governance structures, and internal controls. Although not highly leveraged and, in principle, long-term investors, sovereign wealth funds can represent large, concentrated, and opaque positions and thus may cause worries of systemic risk. Third, compete fairly with the private sector. Sovereign wealth funds should be careful not to be seen as having an unfair advantage in competing with the private sector for transactions, including by financing acquisitions at below-market rates. Finally, respect host-country rules. Sovereign wealth funds should comply with and be subject to all applicable regulatory and disclosure requirements of the countries in which they invest.

These principles will help inform the international dialogue on the issues raised by sovereign wealth funds. The principles also provide a framework for thinking about what we believe is the most appropriate international response to these issues: multilaterally-agreed best practices for sovereign wealth funds and for the countries in which they invest.

Last year, the United States proposed, along with other nations, that the IMF identify a set of voluntary best practices for sovereign wealth funds. This work, I am pleased to say, is already underway in the Fund. Building on existing IMF guidelines for the management of foreign exchange reserves, best practices could cover the overall objectives and principles of sovereign wealth funds, their institutional arrangements, their risk-management frameworks, and their transparency and accountability. Best practices would provide guidance to new funds seeking to make sound decisions on how to structure themselves, mitigate any potential systemic risk, and help demonstrate to critics that sovereign wealth funds will continue to be constructive, responsible participants in the international financial system.

Some observers have questioned the logic of voluntary best practices. They argue sovereign wealth funds do not have adequate incentives to adopt best practices, and that a tough enforcement mechanism is needed. This misses the point that the intent behind identifying best practices for sovereign wealth funds is to create a dynamic rise to the top that makes such regulation, which could become draconian, unnecessary. A set of best practices will create a natural incentive among funds to hold themselves to high standards. Sovereign wealth funds themselves are increasingly aware that the increase in the number and size of these funds has, rightly or wrongly, raised reputational issues for them all.

Recognizing that investment is a two-way street, however, we are also encouraging the Organization for Economic Cooperation and Development (OECD) to identify investment policy best practices for countries that receive foreign government-controlled investment, including from sovereign wealth funds. Recipient countries have a responsibility to maintain openness, and the OECD has a long history of promoting open investment regimes. A dialogue is currently underway in the OECD on investment policy issues raised by sovereign wealth funds.

Returning to the question I raised at the outset: if sovereign wealth funds are not going away, then we must work to ensure their smooth integration into the international financial system. Given the legitimate policy issues they raise, this may not be an easy task. But most things worth doing are not easy. While it is imperative that the U.S. government remain vigilant, the United States will continue to benefit from keeping its doors open to foreign investment, including from sovereign wealth funds, so long as this investment is consistent with free and fair competition.

1)Robert M. Kimmitt, "Public Footprints in Private Markets: Sovereign Wealth Funds and the World Economy," Foreign Affairs, Volume 87, No. 1, Jan-Feb 2008.

2)"Sovereign Wealth Funds," Appendix II, Semi-Annual Report on International Economic and Exchange Rate Policies, U.S. Department of the Treasury, June 2007.

3)http://www.sec.gov/rules/final/33-8188.htm, See also: "Pension Plans: Additional Transparency and Other Actions Needed in Connection with Proxy Voting," Report to the Ranking Minority Member,

Committee on Health, Education, Labor, and Pensions, Government Accountability Office, August 2004.

4)Robert M. Kimmitt, "Public Footprints in Private Markets: Sovereign Wealth Funds and the World Economy," Foreign Affairs, Volume 87, No. 1, Jan-Feb 2008.

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February 25, 2008
HP-837

Treasury Sanctions Additional Financial Operatives of the Burmese Regime

Washington – The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today announced economic sanctions against two key financial operatives of the Burmese regime – Steven Law (Tun Myint Naing) and his father, Lo Hsing Han – as well as Steven Law's wife, Cecilia Ng, and various companies, for providing support to the Government of Burma.

OFAC also announced additional financial sanctions against the business network of Tay Za, a designated Burmese business tycoon and arms dealer with close ties to Burma's military junta. This is the latest in a string of actions taken by the Administration against the Burmese junta and their inner circle, and the second action taken against Tay Za's business network this month.

"Unless the ruling junta in Burma halts the violent oppression of its people, we will continue to target those like Steven Law who sustain it and who profit corruptly because of that support," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence.

The companies designated today include the major Burmese conglomerate Asia World Co. Ltd. and its subsidiaries, Asia World Port Management, Asia World Industries Ltd., and Asia World Light Ltd. OFAC has also identified ten companies in Singapore owned by Cecilia Ng, including Golden Aaron Pte. Ltd., the property interests of which are now blocked.

In addition to their support for the Burmese regime, Steven Law and Lo Hsing Han have a history of involvement in illicit activities. Lo Hsing Han, known as the "Godfather of Heroin," has been one of the world's key heroin traffickers dating back to the early 1970s. Steven Law joined his father's drug empire in the 1990s and has since become one of the wealthiest individuals in Burma.

Lo Hsing Han founded Asia World Co. Ltd. in 1992. His son, Steven Law, operates as the current managing director. Asia World has provided critical support to the Burmese regime and has received numerous lucrative government concessions, including the construction of ports, highways and government facilities.

Today's action also targets two Burmese hotel chains owned by designated regime henchman Tay Za: Aureum Palace Hotels & Resorts and Myanmar Treasure Resorts. Both resort chains are part of the Htoo Group of Companies, an entity designated by OFAC on February 5, 2008.

Steven Law and Lo Hsing Han are the fourth and fifth regime supporters to be targeted for financial sanctions by the Bush Administration. In October 2007, President George W. Bush sanctioned small-arms dealer and regime henchman Tay Za and his network of companies in the Annex to E.O. 13448. OFAC took aim at additional parts of Tay Za's financial network in February 2008. Also listed in the Annex to Executive Order 13448 were junta cronies Khin Shwe and Htay Myint.

Today's actions were taken pursuant to Executive Order 13448, which authorizes the Secretary of the Treasury to designate senior regime officials, human rights violators in Burma, persons engaged in public corruption in Burma, financial and material supporters of the Government of Burma, and spouses and dependent children of previously designated individuals. Today's designation freezes any assets the designees may have subject to U.S. jurisdiction, and prohibits all

financial and commercial transactions by any U.S. person with the designated companies and individuals. It also puts the world on notice about the financial operations of key junta associates and their companies.

REPORTS

- Steven Law Financial Network

Steven Law Financial Network
February 2008

Department of the Treasury
Office of Foreign Assets Control
Specially Designated Nationals
Pursuant to Executive Order 13448

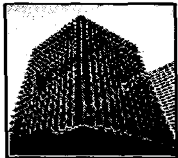
Cecilia Ng
(a.k.a. Ng Sor Hong)
DOB 1958

STEVEN LAW
(a.k.a. Tun Myint Naing)
DOB 16 May 1958

Lo Hsing Han
DOB 1938

Spouse
Son/Father
Managing Director
Chairman

Blocked Companies



3 Shenton Way
#10-01 Shenton House
SINGAPORE

- Golden Aaron Pte. Ltd.
- G A Ardmore Pte. Ltd.
- G A Capital Pte. Ltd.
- G A Foodstuffs Pte. Ltd.
- G A Land Pte. Ltd.
- G A Resort Pte. Ltd.
- G A Sentosa Pte. Ltd.
- G A Treasure Pte. Ltd.
- G A Whitehouse Pte. Ltd.
- S H Ng Trading

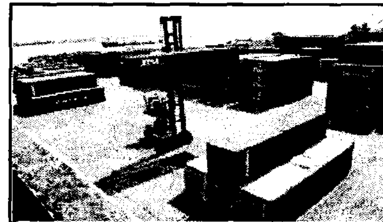
Subsidiary

Asia World Co. Ltd.
BURMA

Subsidiary

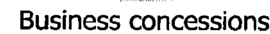
Asia Light Company Ltd.
BURMA

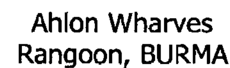
Subsidiary



Asia World Port Management Co.
BURMA

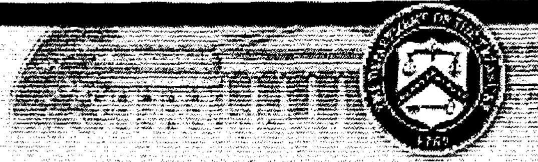
Negotiator/
Service provider





Ahlon Wharves
Rangoon, BURMA

Burmese Junta


PRESS ROOM

February 25, 2008
HP-838

Remarks by Treasury Under Secretary for International Affairs
David H. McCormick
at the
Peter G. Peterson Institute for International Economics
IMF Reform: Meeting the Challenges of Today's Global Economy

Washington, D.C. – Thank you Fred, for that warm introduction, and thank you for inviting me here today. It's a pleasure to speak at the Peterson Institute for International Economics, which over some 27 years has gained a well-earned reputation as a source of cutting edge ideas on the key international economic issues of the day. The Peterson Institute is a particularly appropriate site for discussing the IMF's future. I am delighted to have the opportunity to add my voice to those of scholars and practitioners such as Fred Bergsten, Ted Truman, Mike Mussa, and Morris Goldstein, among others, who have offered important insights into the Fund and the global environment in which it functions.

My argument today is straightforward. The IMF must reform to remain relevant. The world economy is constantly changing, and the IMF must now change with it, as it has successfully done in the past. At the highest level, the IMF's core mission remains promoting an open and growing world economy and the smooth functioning of the international monetary and financial system. It must adapt how it performs this mission, to a world marked by rapid technological transformation, the rising economic weight of emerging markets, and the increasing internationalization of financial markets. To remain relevant, the IMF must take three important steps:

First, the IMF needs to evolve how it performs its mission to meet the forward-looking challenges of the international monetary system.

Second, it needs to reform its governance structure to reflect the growing weight of dynamic emerging markets in the global economy.

Third, the IMF needs to change its operating model to reflect its new mission, ensure ongoing budget discipline, and put in place sustainable sources of income.

As it acts in these ways to meet the challenges of today and tomorrow, the IMF will find in the United States a constructive and committed partner.

A Changing Mission for a Changing World

The IMF was founded on the realization that international monetary cooperation and multilateralism were essential to promoting economic growth in the post-World War II world. The IMF and its sister institutions were also created to prevent a return to the insular policies of the 1930s in which countries erected barriers and engaged in competitive devaluations in ill-fated efforts to gain an edge in world trade.

In the following decades, the IMF assisted economic liberalization in Europe in the 1950s and 1960s, tackled financial crises in Latin America and Asia in the 1980s and 1990s, and helped transform the economies of Central Europe and the former Soviet Union following the fall of the Iron Curtain. More recently, it has been instrumental in assisting emerging market countries adopt sound economic policies and institutions. This is a legacy of success and significance.

Today, however, the IMF faces a very different world where many emerging market countries are able to tap the private capital markets and where the Fund's large lending role in emerging markets is in decline. It must operate at a time when

misaligned currencies create excessive build-ups of foreign exchange reserves; when the investment of those reserves abroad risks stoking the fires of protectionism; when financial market turmoil can spread rapidly and without warning; and, when international cooperation is the key – perhaps more so now than ever – to meeting these challenges.

It is against this backdrop that we believe that the IMF must build on its strong multilateral and bilateral surveillance capabilities and rapidly strengthen its focus on three core priorities: exercising firm exchange rate surveillance, maintaining openness to international investment, and supporting global financial market stability.

First and foremost, the IMF should strengthen its surveillance over members' exchange rate policies. Today, we see many countries rigidly managing their exchange rates, resulting in some cases in trade distortions and excess reserve accumulation. Such policies may appear attractive on the surface, but they have the perverse effect of putting the accumulating countries' own domestic economic objectives at risk, while fostering imbalances and protectionist sentiment throughout the world economy.

This problem calls for the type of international attention that the Fund is ideally positioned to provide, and the IMF has already taken important first steps. Last summer, it overhauled a 30-year-old Executive Board decision on exchange rate surveillance and opened the way for the Fund to play a more productive role. The new decision rightfully places greater emphasis on the impact of country policies on external stability. It defines key concepts such as "manipulation" and "fundamental misalignment." The decision clarifies policies and outcomes which would trigger closer examination of country exchange rate policies and sets forth technical guidelines to help the IMF navigate through this critical but politically charged territory. The IMF must now step fully through the door it has opened and make exchange rate issues the priority they deserve to be. The Fund staff needs to hone its analytics on exchange rates, provide far better and more transparent coverage of exchange rate issues in its work, and offer clearer judgments and perspectives.

This step is fundamental to the IMF's future. If the Fund does not act now by providing a strong multilateral voice for addressing exchange rate issues, we risk countries developing their own bilateral responses. That would mark a major step backward for the IMF and the multilateralism it embodies. In addition, if the IMF fails to shoulder this fundamental responsibility, all other reforms will be called into question.

A second core priority for the IMF involves maintaining openness to international investment. In the current environment, meeting the unique policy challenges posed by sovereign wealth funds is the central issue in this area. We are all familiar with sovereign wealth funds, so I won't go into the details of what they are or how they have grown. For the IMF, the key point is that the rapid growth in the number and size of sovereign wealth funds has important implications for the international financial system. Sovereign wealth funds historically have had a strong track record of making long-term, commercially-driven investments, but they have the potential to be a force for instability or politically driven investments. We believe that a multilateral approach to sovereign wealth funds that maintains openness to investment while allaying these concerns is in the best interest of the countries that operate such funds as well as those in which they invest.

While I am focused on the IMF today, let me be clear that we in the United States understand our own obligation to protect the openness of our markets to all parties, including sovereign wealth funds. That said, the IMF is uniquely positioned to help ensure that sovereign wealth funds continue to be a positive force in the world economy. In response to these funds, the IMF is coordinating the development of voluntary best practices for sovereign wealth funds, which will help push back against the calls for increased restrictions on sovereign investment. The IMF has a mandate to promote financial stability, along with expertise in the fiscal, monetary and external policies that are tightly linked to the growth of these funds. Its members have a common interest in the maintenance of openness to trade and investment. The IMF also has existing Guidelines for Foreign Exchange Reserve Management, which can provide a foundation to build on. For these reasons, sovereign wealth funds are precisely the type of cross-cutting issue of systemic importance that the IMF is well-placed to address.

The IMF has already started down this path. Last November, it hosted a roundtable meeting for sovereign asset and reserve managers to discuss their common challenges and how to tackle them. Next month, the IMF Board will discuss the key areas that will comprise the sovereign wealth funds best practices work. We are committed to working with our partners in the Fund to bring this exercise to a meaningful conclusion by the annual meetings of the Fund and Bank if not sooner.

The current financial market turmoil brings to the front pages the third core priority for the IMF – its essential role in promoting global financial stability. Financial turmoil and instability is a global problem that requires a multilateral response using the full range of institutions, forums, and dialogues that we have at our disposal.

The IMF has an important contribution to make in forging a response to the current global financial market turmoil and developing enhanced means to prevent future crises. A pivotal part of this effort is its Financial Sector Assessment Program, or FSAP. As many of you know, an FSAP is a comprehensive assessment of a country's compliance with key internationally agreed upon standards and codes and can also be used to "stress test" a financial system against a variety of shocks to ensure its strength and viability. Over 115 countries have undertaken voluntary FSAPs, and this program deserves our strong continued support for the benefits it brings to the individual countries and the global economy. The United States reached understandings with the IMF in late 2006 and early 2007 about undertaking a U.S. FSAP. I am pleased to announce that our FSAP evaluation will begin next year.

Another IMF product, the semi-annual "Global Financial Stability Report" also contributes to financial early warning and stability by alerting policy-makers and the public to emerging risks and financial market trends. Recent reports have highlighted risks stemming from increasingly complex interactions between financial market developments and the broader global economy. This report in turn feeds into the work of the Financial Stability Forum (FSF), which typically draws on this analysis in its surveillance discussions.

Recently, British Prime Minister Gordon Brown called for strengthening "early warning" of potential financial turbulence and enhanced collaboration between the FSF and the IMF. Strong collaboration between the IMF and FSF is certainly desirable and improved early warning a laudable goal. Yet, we must also be realistic about our ability to predict crises. Indeed, our foremost challenge must remain developing effective policies and regulatory responses that institute sounder financial market frameworks able to withstand risks and losses should crises arise. As we learn more about the details of the Prime Minister's proposal, and others that may emerge, the international community can assess how to strengthen its capabilities in this area. Regardless of whatever other steps it might take, the IMF needs to improve its understanding of complex financial market dynamics and their interactions with the real economy and integrate this analysis into the mainstream of core IMF work.

By focusing its efforts more intensively in these three areas – exchange rate surveillance, maintaining openness to international investment, and financial sector analysis – the IMF can adapt its mission to the needs of the day. And to ensure the success of this policy reform agenda, these priorities should receive a significant allocation of management focus, resources, and talent.

However, even as the IMF shifts its core focus, it cannot lose sight of the need to maintain other key capabilities and longstanding responsibilities. The IMF will need to continue its role as a balance of payments lender to countries in crisis and as an institution promoting macroeconomic stability in developing economies. It must sustain its readiness to provide appropriate financial support in times of crisis, even if its role in this area will be less prominent than in the past. Additionally, the Fund has an important role in promoting macroeconomic stability in countries that are struggling to emerge from poverty through its policy advice, surveillance, technical assistance, and short-term balance of payments lending. In performing this function, however, the IMF must avoid "mission creep" and respect the primacy of the World Bank and regional development banks in working with reform-minded governments to promote longer-term structural reforms.

Governance and Reform

To accomplish this ambitious agenda, the IMF must also reform the way it is governed. I earlier referred to the changing relative economic weights of countries in the global economy. The rise of dynamic emerging markets, especially in Asia, is a remarkable and welcome development. These countries have accounted for more than half of the growth in the world economy in the past five years, and they have increasingly become creditors to the international system.

The IMF must now adapt to accommodate the increasing weight and responsibilities of these emerging economies. That means updating the IMF's outmoded governance structure, which reflects more the economic realities of the 1970s than the global economy of today. As a result, as many countries have seen their relative weight in the world economy rise sharply, they have also seen their voting weight in the IMF fail to keep pace.

If the IMF is to remain influential with these countries and relevant to the global economy, it must increase their stake in the institution. It must increase the shares of under-represented countries and cut the weight of over-represented nations. If the IMF – and we collectively – fail in this challenge, we risk the possibility that those nations who believe they are not being sufficiently recognized will drift away from the IMF and the cause of multilateralism altogether.

The zero-sum nature of this dilemma ensures it will be a difficult political nut to crack. It means taking incremental but meaningful steps to build on the 2006 Singapore quota reforms, and it will require political will at the highest levels in many of our countries. For our part, the United States is prepared to work flexibly and constructively with the IMF membership on further quota-reform. As it has been, our position in this debate will remain consistent with four principles:

First and foremost, quota reform must significantly boost the weight of dynamic emerging market economies. It must achieve a meaningful shift in relative weights. To accomplish this, we will support a significant increase in the size of the second stage of quota reform.

Second, any new formula for determining quotas must give more prominence to GDP, the most robust measure of relative economic weight. While measuring GDP at market exchange rates is optimal for the purposes of the Fund, the United States is prepared also to accept an important role for purchasing power parity in the new quota formula if that helps to build consensus.

Third, calculations using potential new quota formulas result in a dramatic rise in the U.S. share in the Fund. However, the United States will only seek to maintain its voting share, prior to the autumn 2006 adjustment, and will forgo any additional increase in its weight at the institution in order to help provide space for a shift in weight to dynamic emerging markets.

Fourth and finally, the voices of the poorest must be protected during quota reform. To this end, the United States supports significantly increasing basic votes.

IMF quota shares are only one part of the Fund's governance structure. The other key component is the IMF Executive Board. Like the Fund's quota shares, Board representation has failed to keep pace with change. For the IMF to be a truly representative and effective multilateral institution, we believe that the Board too must change.

The Executive Board is simply too large, too inefficient, too costly, and too unrepresentative of the world in which we live. The crush of voluminous daily work means that Board members are not able to focus strategically on the big picture. This undermines the Fund's legitimacy and impedes its efficiency. For this reason, we call on other nations to work with us to reduce the number of chairs in the IMF Board from 24 to 22 seats in 2010, and to 20 seats in 2012. In doing so, the number of developing and emerging market country chairs should be preserved. To allow for greater voice of emerging markets and low-income countries, we also advocate an amendment to the Articles so that all Executive Board members are "elected," abolishing the current practice of "appointed seats" for the five largest shareholders.

We also believe that acknowledging this challenge, and committing to address it, can galvanize needed reforms in Board work practices and staffing levels. Facing

reality in this way can help spur the Board to become more selective and strategic in its oversight role. A resident Board remains critical to the effectiveness of the institution, but that Board must adapt to changing global conditions. We look forward to working with other IMF members in developing proposals for streamlining the Board and improving its efficiency and strategic focus.

A New Operating Model

Finally, a refocused IMF requires a revised and sustainable operating model. The harsh fact is that as IMF lending has declined, the Fund's income has also fallen sharply at a time when it is still providing surveillance and other useful global public goods. As a result, a large medium-term financing gap has emerged on the order of $400 million per year. Managing Director Dominique Strauss-Kahn has proposed that $100 million of the gap be covered by reduction in IMF administrative expenses and the remainder through new income measures, principally the creation of an IMF endowment which could generate roughly $250 million in income per year. In examining financing options, the Fund has benefited enormously from the work of the Committee to Study Sustainable Long Term Financing of the IMF, headed by Sir Andrew Crockett and assisted by Alan Greenspan.

I'd like to commend the new Managing Director for the vigor with which he has tackled administrative cost cutting and also for instituting the budget discipline which the Fund has long recommended to others. Starting with $100 million in genuine cost savings in FY2009, this budget discipline must include transparent measures to ensure that these savings do not erode in future years. It is also important that the IMF Board demonstrate leadership by reducing expenses for the board more significantly, in percentage terms, than the cost cuts imposed on the IMF staff.

We recognize, however, that with the Fund's mission placing greater emphasis on surveillance and financial stability -- and less emphasis on lending -- the IMF will still require new sources of income. The United States will help ensure that the IMF has adequate resources to fulfill its vital global mission by seeking authority from Congress for a limited sale of IMF gold, consistent with this recommendation in the Crockett Report. We believe an endowment, financed through a limited gold sale, combined with continued budget discipline, will provide the basis for sound and sustainable IMF finances.

The Right Time for Reform

Ladies and gentlemen, in a changing world, we need to make full use of every tool we have available. The IMF has played an important role in supporting global growth and responding to global economic challenges for over six decades. The United States wants to see the IMF continue its record of success into the future. Our task is to ensure that it evolves how it performs its mission, its governance, and its operating model so that it can continue to play a central role in the global financial system.

The good news is that the IMF is already taking some important steps down the path I have outlined. Indeed, in Managing Director Dominique Strauss-Kahn, Treasury Secretary Hank Paulson, and others too numerous to mention, the IMF and the global economy have the leadership in place to address the challenges we face.

Some, however, perhaps even in this audience may have a less optimistic view. They argue that the IMF's progress to date and the reforms we advocate are too small, too incremental, and too slow to make a difference. I respectfully disagree. To reorient an organization's core mission and priorities, to adapt its governance structure, and to update its operating model is a major undertaking for any institution, private or public. In a large multinational organization like the IMF, that must accommodate competing national interests while fulfilling global responsibilities, it is all the more challenging. The reforms I have just described are significant, comprehensive, and achievable, and like compounding interest will deliver substantially increased benefits over time. These three areas of reform must be, in my view, the priority for all stakeholders who are committed to an effective, sustainable, and relevant IMF.

The birth of the IMF was not easy. In reading the accounts of the deliberations at Bretton Woods, I am always struck by the competing perspectives and interests of the participants. But the founders were guided by an overriding sense of mission, and that sense of mission led them to profoundly important results. Today, again fueled by a common sense of mission and a common commitment to multilateralism and reform, we can ensure that IMF continues to play an effective and significant role in the global economy. The United States will be flexible and practical. We will at times stand very firmly on principle, but I can assure you we will always be a constructive partner on this important journey.

Thank you.

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PRESS ROOM

February 25, 2008
2008-2-25-15-22-41-17131

U.S. International Reserve Position

The Treasury Department today released U.S. reserve assets data for the latest week. As indicated in this table, U.S. reserve assets totaled $72,073 million as of the end of that week, compared to $71,596 million as of the end of the prior week.

I. Official reserve assets and other foreign currency assets (approximate market value, in US millions)

	February 22, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			72,073
(a) Securities	14,784	11,977	26,761
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	14,640	5,875	20,515
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	4,222		
(3) SDRs	9,534		
(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)

		Total	Maturity breakdown (residual maturity) 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	

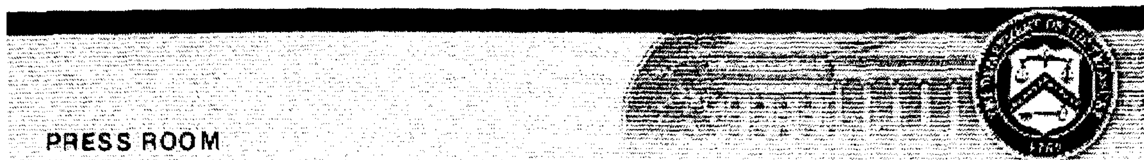
(d) securities lent and on repo	
--lent or repoed and included in Section I	
--lent or repoed but not included in Section I	
--borrowed or acquired and included in Section I	
--borrowed or acquired but not included in Section I	
(e) financial derivative assets (net, marked to market)	
--forwards	
--futures	
--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)	72,073
--currencies in SDR basket	72,073
--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.

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

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



February 25, 2008
HP-839

Secretary Paulson to Visit Chicago

Secretary Henry M. Paulson, Jr. will travel to Chicago, Ill. this week to deliver remarks to the Economic Club of Chicago. His remarks will focus on the U.S. economy and capital markets.

The following event is open to the media:

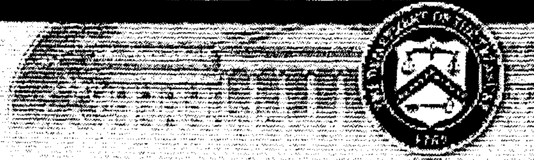
What
Remarks to the Economic Club of Chicago

When
Thursday, February 28, 8:00 p.m. CST

Where
Sheraton Hotel
301 East North Water Street
Chicago, Ill.

Note
Media should contact Patrick O'Connor at 312-573-5510 or patrick_oconnor@jtpr.com with logistical questions.

PRESS ROOM



February 26, 2008
HP-840

Assistant Secretary for Economic Policy Phillip Swagel Remarks on the U.S. Economy before The Euromoney Bond Investors Congress

London – Thank you, Padraic. I am pleased to be here in London to discuss the U.S. economy. A lot is happening at the Treasury now; I will give you a quick rundown of four key items--the macro outlook; fiscal stimulus; the housing market; and U.S. financial markets.

Macro Outlook

On the macro outlook, the fundamental drivers that make the U.S. economy healthy over the long term remain the same, including the flexibility, innovation, and entrepreneurship that characterize our nation. At the same time, we are undergoing a significant housing correction, and U.S. GDP growth looks to remain slow in the first part of 2008. Americans have become accustomed to good economic performance, such as we saw from mid-2003 to mid-2007, so even the modest slowdown so far has been keenly felt.

Fiscal Stimulus

The recent fiscal growth package will help support the broad economy as we weather this housing downturn. The package was signed into law by the President two weeks ago and we're going to implement it quickly. More than $110 billion will be sent directly to American families starting in May, with the process largely complete by mid-summer. This will provide a needed boost to household spending, while incentives for business investment will bring forward capital spending. We look for the pace of growth to quicken as we go through 2008. But we understand that a resumption of strong and sustainable growth depends on a resolution of the difficulties in housing and credit markets.

The Housing Market

Let me now turn to the U.S. housing market. In the Midwest and the Gulf Coast States slow growth and weak hiring translated into sagging home values and construction. Other areas--notably California, Arizona, Nevada, and Florida--experienced a sharp run-up in prices that reflected low interest rates, weak underwriting standards, and unreasonable expectations of continued price increases. The acceleration of home building has now left a large overhang of inventories. The resulting price correction was the key initial impetus for rising foreclosures in the bubble areas because many subprime borrowers relied on financing strategies that were sustainable only with rising prices and access to easy credit. The dislocation in credit markets has limited refinancing opportunities, and this then feeds back into foreclosures.

We're in the middle now of adjusting out of this downturn. The consensus of forecasts is for new home sales to bottom out in the first half of the year and this will whittle away at the inventory overhang and in turn signal to builders to increase construction. In the meantime, however, residential construction looks like it may subtract a full percentage point from growth this year following two consecutive years of nearly as much drag.

The Administration has focused on avoiding preventable foreclosures, through expanding federal mortgage financing and through the private-sector HOPE NOW Alliance, which is applying a streamlined process to refinance and modify loans for borrowers with the financial wherewithal to stay in their houses. These initiatives are demonstrating initial and growing success, though we are far from a satisfactory resolution to the problem.

We are looking carefully at all further options with regard to housing. I must tell you, though, that it is hard to be enthusiastic about plans that provide bailouts to investors or a shift of risk from a private balance sheet to the public one.

U.S. Financial Markets

As part of Secretary Paulson's Capital Markets Competitiveness agenda, Treasury is looking carefully at the structure of financial market oversight. Treasury will release a blueprint for regulatory modernization in the coming weeks. The goal of any reform will be to lay the framework for a more effective and safer regulatory system while being mindful that over-regulation can squelch valuable innovation and incentives for risk-taking, risk-dispersion, and due diligence.

Secretary Paulson is leading the President's Working Group to evaluate the lessons learned from current challenges, and where appropriate, make recommendations for change. Not surprisingly, the oversight of mortgage origination is getting a close look, as is securitization, in both cases to make sure that there is effective market discipline so that appropriate disclosure and due diligence occur and so that borrowers are not misled. The scope of this review includes the spectrum of market participants, including brokers, originators, issuers and underwriters, credit rating agencies, and investors. Regulators are looking as well to identify areas needing improvement in global financial institutions' risk management practices. Finally, the reform process will look inward to consider policies that contributed to, or failed to mitigate, the underlying problems. The list here includes policies regarding regulatory capital, disclosure, accounting, and valuation. We look forward as well later this year to the report of the Financial Stability Forum on the lessons of the recent turmoil.

These efforts are aimed at reducing the odds of a similar problem happening in the future. A criticism could be made that any proposed regulatory reforms, while worthwhile, amount to fixing the barn door after the horse has escaped. I worry, though, about proposals that solve the problem of the horse escaping by demolishing the barn. By this I have in mind proposals that would greatly restrict the terms on which credit can be offered to borrowers with imperfect credit or that would retroactively change contracts on existing loans. Both types of action would make it difficult for future subprime borrowers to get into a house in the first place. And this would be unfortunate given that today, about 77 percent of subprime borrowers--over 5 million of them--are keeping up with their mortgage payments.

One final lesson of recent events in the United States is in regard to the availability and use of information. The originate-to-securitize model succeeded in dispersing risk--only too well to the regret of many investors--but had the unwelcome effect of also dispersing information. The lack of information about the quality of the mortgages underlying MBS, CDOs and the gamut of related instruments has made pricing difficult, and this in turn has contributed to a flight to quality. Limited access to and limited demand for information throughout the securitization chain also facilitated fraud and lax underwriting standards. Uncertainty about asset performance is in part fundamental, in that loan performance depends on economic outcomes that we can forecast only imperfectly. But some of the uncertainty can be overcome by improved access to and use of finely grained information on loan characteristics and performance. Market participants had the incentive to demand such information, but in retrospect we see that unreasonable expectations about continued price increases reduced due diligence. Careful investors can actually be at a disadvantage when the analysis of others is lax. We are encouraged now that efforts are being made by private-sector participants to develop a standard framework for the collection and disclosure of mortgage-level information. Better information will help investors price risk and thereby aid the market adjustment. A basic lesson is that there is nothing wrong with complex financial structures so long as they are not opaque--so long as disclosure and analysis can pierce complexity. Making loan-level data more accessible will facilitate the needed analysis.

Providing better information is a desirable step in any environment. In the present situation, a lack of transparency and easy access to information is at the heart of the disruption that has affected both market participants and global economies more broadly. Getting the long-term policy right in this case can have a positive effect in speeding the alleviation of current stresses.

Thank you again for the opportunity to be here and to kick off an excellent

conference. I would be glad to answer questions.

-30-

February 27, 2008
HP-841

Remarks by Treasury Assistant Secretary for Terrorist Financing
Patrick M. O'Brien
at the Washington Institute for Near East Policy

Washington - Good morning, ladies and gentlemen. Thank you for your time and the opportunity to speak today.

I also would like to thank the Washington Institute for hosting me. The Washington Institute and the Treasury Department have had a long and fruitful relationship. My colleagues and I continue to benefit significantly from your excellent analysis and research on a regular basis. In particular, I am pleased to be reunited with two outstanding former colleagues, Matthew Levitt and Michael Jacobson, two of my hosts today.

Last year, Treasury's Deputy Secretary Robert Kimmitt spoke to you about a Treasury Transformed. Today, I would like to build on those remarks and provide further detail on Treasury's Office of Terrorism and Financial Intelligence (TFI). I will explain TFI's perspective and strategic approach for combating not only terrorist financing, but also other threats to our national security, including WMD proliferation, rogue nations, kleptocracy, drug trafficking, money laundering, and organized crime more generally. I would then like to spend some time on TFI's efforts to combat terrorist financing and how those efforts advance the broader U.S. counterterrorism mission. Finally, I want to briefly update you on TFI's efforts to address the particular threats that we face from Iran, with respect to proliferation and its role as a state sponsor of terrorism. These efforts illustrate TFI's broad range of statutory authorities, its effective government and private sector relationships, and substantive expertise in developing a comprehensive strategy to disrupt the ongoing threat posed by Iran.

TFI – An Overview

When Deputy Secretary Kimmitt spoke to you last year, he described the birth of TFI and broadly explained how TFI has given the Treasury Department and the Executive branch new and enhanced capabilities to combat borderless, asymmetric threats.

In the broadest sense, TFI has a threefold mission to:

(1) safeguard the financial system from criminal and illicit activity;

(2) produce financial analysis and information through the Bank Secrecy Act (BSA) to assist law enforcement and counter-terrorism authorities; and

(3) take targeted economic and financial action against threats to our national security or foreign policy interests.

To advance this mission, TFI, led by Under Secretary Stuart Levey, relies upon several offices that fall under its authority – the Office of Intelligence and Analysis (OIA), the Office of Foreign Assets Control (OFAC), the Financial Crimes Enforcement Network (FinCEN), the Executive Office of Asset Forfeiture (TEOAF), and my office, the Office of Terrorism Finance and Financial Crimes (TFFC).

OIA

Allow me to begin with the Office of Intelligence and Analysis. As the 9/11

Commission and others have rightly noted, actionable and timely intelligence is required to combat terrorism and its financiers. Our intelligence office, led by Assistant Secretary Janice Gardner, was created to provide expert, all-source analysis on financial and other support networks for terrorist groups, proliferators, and other key national security threats. Matt Levitt and Mike Jacobson were instrumental in standing up this office and building its operational capacity to serve TFI and Treasury's growing intelligence needs.

Treasury relies on analysis from OIA to identify and take targeted economic or financial action against those who threaten our national security and seek to abuse our financial system. OIA analysis is the backbone behind the designation of individuals or entities engaged in terrorist activity, financing or support pursuant to Executive Order 13224. OIA is not simply the end-user of raw data, but informs the intelligence community's perspective on financial information, shaping the manner and type of information gathered. In combination with information and analysis from TFI partners, OIA's all-source intelligence analysis also contributes to:

(1) designation of those who threaten our national security pursuant to executive orders on proliferation and other national security threats;

(2) issuance of advisories to financial institutions to protect against heightened risks to the financial system;

(3) targeted outreach to jurisdictions or financial institutions about particular threats or bad actors; and

(4) actions under Section 311 of the Patriot Act to designate a jurisdiction, financial institution, class of transactions, or type of account as a "primary money laundering concern."

The Office of Intelligence and Analysis represents a Treasury asset that is unique among finance ministries around the world. In fact, one of the primary challenges we face in strengthening our global approach to combating terrorist financing and other threats lies in encouraging and assisting our allies to develop similar capabilities. Furthermore, the success of OIA serves as an example to our partners of the critical need for a designated competent authority, which has the capacity and willingness to utilize intelligence in support of targeted financial measures, based on clear national legal authority.

OFAC

OFAC is another unique asset that is critical in advancing our efforts to combat terrorist financing and other national security threats. Led by Director Adam Szubin, OFAC is the office responsible for implementing, administering, and enforcing Treasury's wide range of economic sanctions programs in support of the US Government's national security and foreign policy interests. With respect to terrorist financing, OFAC implements and administers Executive Order 13224, a principal authority by which the USG designates those individuals and entities engaged in or otherwise supporting terrorist activity. It has similar authorities for narcotics trafficking and proliferation.

While the immediate legal effect of these designations – freezing any assets the target has under U.S. jurisdiction and preventing U.S. persons from doing business with them – is relatively straightforward and largely understood, the actual impact of these targeted economic sanctions is less visible and often misunderstood. Broadly speaking, these sanctions are preventive in nature. In simplest terms, they prevent terrorists from obtaining the resources and support they require to conduct their operations and execute attacks. Targeted economic sanctions also serve the following purposes:

(1) deterring non-designated parties who might otherwise be willing to finance terrorist activity;

(2) exposing terrorist financing "money trails," which may generate leads to previously unknown terrorist cells and financiers;

(3) dismantling terrorist financing networks by encouraging designated persons to disassociate themselves from terrorist activity and renounce their affiliation with terrorist groups;

(4) terminating terrorist cash flows by shutting down the pipelines used to move terrorist related funds or other assets;

(5) forcing terrorists to use more costly, less efficient and riskier means of financing their activities, which can make them more susceptible to detection and disruption; and

(6) fostering international co-operation and compliance with obligations under

UNSCR 1267 and its successor resolutions, and UNSCR 1373.

To accomplish these objectives, targeted economic sanctions must be operationally implemented and enforced. OFAC is unique in that it is the only office in the world that is significantly resourced and dedicated exclusively to advancing these interests through licensing, outreach, compliance, and enforcement. As with TFI's intelligence office, encouraging our partners to set up administrative bodies similar to OFAC represents another crucial challenge that we face in effectively globalizing our campaign against illicit finance. Operational capability is an essential tool for the international community to identify, disrupt, and help dismantle illicit networks.

FinCEN

Led by Director Jim Freis, FINCEN is primarily responsible for administering and enforcing the Bank Secrecy Act (BSA). This is one of the primary authorities that we rely upon to promote transparency in the U.S. financial system. Systemic transparency is a necessary precondition for advancing the threefold mission of TFI. In short, financial transparency provides the visibility required to safeguard the financial system, identify and extract information useful to law enforcement and counter-terrorism authorities, and take targeted action against those threats that operate within the financial system.

FinCEN promotes transparency through the BSA by promulgating and enforcing regulations that generally require covered financial institutions to develop and implement customer identification, recordkeeping, reporting, and anti-money laundering (AML) programs. In addition, FinCEN conducts analysis of the information that it receives from financial institutions to assist law enforcement and counter-terrorism authorities in initiating or advancing financial investigations. Finally, FinCEN works with counterparts from over 100 countries through the Egmont Group to facilitate the cross-border exchange of financial information in support of financial investigations. FinCEN serves as a gateway to financial intelligence units (FIUs) in foreign jurisdictions to assist in these financial investigations.

Key challenges that we face in effectively globalizing our counter-terrorism campaign lies in better utilizing these FIU relationships to advance terrorist financing investigations and promoting multi-lateral implementation of financial measures against terrorist organizations and their support networks.

TEOAF

The Treasury Executive Office of Asset Forfeiture (TEOAF) serves as a mechanism for re-investing forfeited illicit proceeds by funding cooperative initiatives among federal, state, and local authorities. Funds administered by TEOAF can be used to test new ideas and approaches to combat illicit finance. It is important, particularly for developing jurisdictions, to adopt sound forfeiture authorities and management mechanisms that exploit the ill-gotten resources of money launderers and terrorist financers and invest in much needed personnel, training, and equipment for AML/CFT supervision and enforcement.

TFFC

Finally, let me say a word about my office, the Office of Terrorist Financing and

Financial Crimes. TFFC develops and implements policies, strategies, and initiatives to:

identify and address vulnerabilities in the U.S. and international financial system, and

take targeted economic and financial action against security threats and their support networks. We also provide direct support to TFI's Under Secretary, Stuart Levey, and Treasury leadership on issues that implicate TFI's interests – particularly with respect to the activities of the National Security Council. In fulfilling these responsibilities, TFFC works closely with all elements of TFI and the Treasury, as well as with the inter-agency community, the private sector, and government ministries from around the world. We do this both bilaterally and through multilateral organizations such as the G7, the IFIs, the FATF, and the various FATF-Style Regional Bodies (FSRBs).

As I turn now to a specific discussion of our efforts to combat terrorist financing, I want to emphasize at the outset that these efforts are truly interagency and we are not in this fight alone. I'll focus on Treasury's role, but as the discussion will hopefully make clear, effective efforts to attack terrorist support networks involve all elements of the interagency working together: intelligence, law enforcement, diplomatic, and military. We benefit in this endeavor from strong relationships with our interagency partners, specifically the National Security Council's planning and coordination through its Counterterrorism Security Group and its Sub-group on Terrorist Financing, and the efforts of the National Counterterrorism Center (NCTC).

Defining Terrorist Financing

Context and Scope of Terrorist Financing

In order to combat terrorist financing, one must first understand what terrorist financing actually is in a broader context. Combating the financing of terrorism is part of the broader war on terrorism. As such, our counter-terrorist financing efforts must focus not only on the relatively narrow perspective of finance, but also on the wider landscape of terrorist support, including those structures and organizations that terrorists rely upon to execute their attacks and advance their agendas.

Such a broad view of terrorist financing and support is essential in understanding the importance of our work. We have all heard the arguments posed by those who question the effectiveness of counter-terrorist financing efforts. These critics point to the minimal costs and relative ease of procuring materials that are often used in terrorist attacks such as precursor chemicals or suicide belts. However, as many scholars in this room have pointed out, these arguments ignore the much larger and sustained expenses required to finance the terrorist life cycle – to include propaganda, radicalization, recruitment, and popular support gained through the delivery of welfare and social services and the development of organized media and political campaigns among vulnerable populations. They ignore the training, travel, and operational support that terrorists require to be successful. They ignore the costs of securing and protecting safe havens from which terrorists can plan and organize their operations. And perhaps most importantly, they ignore the massive devastation that terrorists could inflict if they were to have the financial and logistical means to acquire weapons of mass destruction.

Elements of Terrorist Financing

This understanding of the broader costs required to sustain and make operational the terrorist threat explains the USG's focus on terrorist organizations and their support networks. It also informs our perspective in focusing on the elements of terrorist financing. These elements can be roughly divided between sources and conduits of terrorist financing or support.

Experience indicates that terrorist operatives, cells, and organizations rely on three general sources of financing and support: donors – particularly ideologically motivated individuals, but also funds raised by or through charities from witting or unwitting donors, criminal proceeds; and state sponsorship.

Experience also indicates that terrorist operatives, cells, and organizations – like

many criminal organizations – exploit all three fundamental ways to move value as conduits of terrorist financing and support. These conduits include: the formal financial system, the physical movement of currency, and the physical movement of goods through the trade system. In exploiting these three fundamental ways of transferring value, terrorist organizations and their support networks may employ several different mechanisms, including wire transfers, cash couriers, charities, and informal value transfer systems (IVTS), which include alternative remittance systems such as hawala. Hawaladars, like operators of other informal value transfer systems, may conduct transactions and settlement activity through all three ways of moving value – the formal financial system, cash, or trade.

The challenge inherent in this broad recognition of how terrorist operatives, cells, and organizations raise and move funds and support is that it demonstrates the complex, dynamic, and global nature of terrorist financing. The various sources and conduits of funds also illustrate how interdependent our global financial system is, and the critical need to work with our foreign partners and the private sector, including in non-financial industries such as the charitable sector, and in traditionally unregulated sectors such as hawala and remittance systems. Terrorist financing is not static – it adapts and constantly seeks to exploit vulnerabilities in our financial and trade systems.

Nonetheless, this emphasis on the elements of various terrorist financing sources and conduits provides a useful framework for developing and applying TFI's general strategic approach to combating this threat.

Combating Terrorist Financing

Consistent with our general strategic mission and perspective, TFI has adopted a comprehensive approach to combat the various sources and conduits of terrorist financing and support. This comprehensive approach includes:

(1) developing, implementing, and globalizing measures and initiatives to close systemic vulnerabilities;

(2) targeting – identifying critical nodes of terrorist support;

(3) developing, implementing, and globalizing targeted actions and initiatives against those nodes; and

(4) enhancing implementation through private sector outreach.

Systemic Measures and Initiatives

Systemically, in order to better protect against, identify, and intercept terrorist support networks, TFI focuses on enhancing the transparency of the financial system and those industries and financing mechanisms particularly vulnerable to those networks.

Domestically, TFI has generally strengthened and expanded the BSA through FinCEN's implementation of Title III of the PATRIOT Act to promote greater transparency across the financial system since the terrorist attacks of 9/11. These efforts have included a host of regulations that strengthen pre-existing AML controls in banking and other financial sectors, as well as regulations that extend AML customer identification, recordkeeping, reporting, and AML programmatic requirements to new industries. This has improved our overall ability to identify not only terrorist-financing-related transactions, accounts, and actors, but also other illicit financing threats.

Internationally, through our leadership of the USG delegation at the FATF and the various FSRBs, TFI has assisted in substantially improving the global transparency of the financial system. These efforts have focused on setting standards – as evidenced by the adoption and development of the FATF Special Recommendations on Terrorist Financing – and creating accountability and capacity for implementing those standards through mutual evaluations, training, and technical assistance.

TFI has focused systemic efforts on the mechanisms and industries particularly vulnerable to terrorist financing – including cross-border wire transfers, charities, cash couriers, and trade-based systems.

For example:

Cross-border wire transfers - TFI has collaborated with industry to improve the transparency of cover payments and Automated Clearing House payments. We have also led international efforts through the FATF to develop an international standard requiring the inclusion of originator information on cross-border wire transfers.

Charities - TFFC has worked together with the IRS to promote greater transparency through stronger reporting requirements for those charities seeking tax-exempt recognition from the IRS. TFFC has also led TFI's engagement with the charitable sector and developed Treasury's *Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities.* More broadly, TFFC has led a USG and global approach through the FATF to combating terrorist exploitation of charities by developing an international standard, which includes strengthening oversight, enforcement, outreach, and international engagement. TFFC has also led USG and international efforts to publish ongoing threat information and typologies regarding this threat.

Cash couriers - TFFC has worked with Immigration and Customs Enforcement (ICE) to promote transparency and detect the use of cash couriers by leading a global approach requiring cross-border declaration or disclosure of currency and bearer negotiable instruments. This is illustrated by the adoption of a new international standard and associated guidance by the FATF.

Trade transparency - TFFC is also working with ICE to facilitate transparency across the global trade-based system by proposing a new international standard at the FATF. Moreover, TEOAF has funded the development of ICE's innovative trade transparency unit, which is working to establish similar counterparts in other countries to exchange trade data for purposes of detecting trade-based money laundering.

Targeting

We are working constantly to focus Treasury's substantial authorities and resources on selecting terrorist financing targets that can have the most impact. Several times a week, staff of TFI offices gathers with TFI leadership to discuss specific targets. OIA, using all-source intelligence, develops a picture of the target complemented by OFAC and FINCEN data and analysis. The group then reviews what courses of action available to Treasury – administrative, regulatory, formal, or informal - could disrupt or shut down the threat. Courses of action are then developed and coordinated through the Sub-CSG on Terrorist Financing and other mechanisms, as necessary.

Globalizing Targeted Actions and Initiatives

The U.S. is most effective in combating terrorist support networks when it can act multilaterally. On this front, OFAC and TFFC have led TFI's efforts to globalize targeted sanctions against terrorist financing by providing substantive expertise to the State Department in the successful development of global terrorist financing sanctions regimes through UN Security Council Resolution 1267 and its successor resolutions, as well as UNSCR 1373. TFFC has facilitated global implementation of these sanctions regimes by leading the development of an international standard and associated guidance at the FATF.

Challenges remain, however, in facilitating global compliance with these sanctions obligations. To address this, TFI has led the development of workshops at the FATF and the Asia Pacific Group – the largest FSRB – as well as with the European Union. These efforts have led to a better understanding of the operational components of a sanctions regime at a national level in accordance with UNSCR 1373. TFFC and OFAC are also engaged with the State Department to strengthen the 1267 sanctions regime at the UN. Additional challenges include how to strike the appropriate balance between due process concerns regarding independent

review of UN designations with the need to generate more robust targeting submissions from member states. Lastly, efforts are continuing to streamline the execution of designations by the Al Qaeda and Taliban Sanctions Committee.

Private Sector Outreach

The private sector is also a critical partner in the effective implementation of sanctions and thus outreach and dialogue with them is extremely important. Within TFI, OFAC conducts ongoing outreach across the U.S. financial system and vulnerable non-financial industries to facilitate sanctions implementation. FinCEN similarly engages in constant outreach to all financial industries covered under the BSA, through a variety of efforts, including through the Bank Secrecy Act Advisory Group (BSAAG). These ongoing efforts are essential to facilitating domestic implementation of the targeted and systemic authorities that TFI possesses.

Another example of our outreach efforts is Treasury and our USG partners' engagement with the charitable sector and affected communities in the United States concerning terrorist organizations' exploitation of charities. Almsgiving is an important expression of religious faith for Muslims throughout the world and charity is one of the pillars of Islam. It is also a core American value and integral part of American culture and society. It is a sad reality, but terrorist organizations continue to effectively exploit charity to finance their operations and to cultivate broader support from vulnerable populations. In response to this ongoing threat, TFI has worked with its interagency partners to develop a multi-pronged strategy to combat such exploitation, a key element of which is raising awareness of terrorist financing threats and risk mitigation practices in the charitable sector through comprehensive and sustained outreach.

Internationally, TFFC is working with a number of partners from the private sector, multilateral organizations, and bilateral counterparts to promote private sector implementation of sound AML/CFT controls in banking communities across the Middle East / North Africa (MENA) and Latin American (LA) regions. TFFC is advancing these efforts through the creation of Private Sector Dialogue (PSD) initiatives that bring representatives of U.S. banks together with private sector counterparts from key regions. The PSD allows us to raise awareness of money laundering and terrorist financing risks; to facilitate a better understanding of effective practices and programs to combat such risks; to strengthen implementation of effective AML/CFT controls; and to exchange information and improve understanding of business cultures and norms.

Iran

Given the Washington Institute's extensive work on Iran, I also wanted to take this opportunity briefly remark on some of the major developments that have occurred since Deputy Secretary Kimmitt's last visit. In May, the Deputy Secretary noted that the United States has employed a two-fold sanctions strategy utilizing domestic authorities and engaging in intense international outreach highlighting deceptive conduct by Iran and its state-owned banks.

To date, in addition to a variety of domestic U.S. actions, multilateral efforts have yielded critical success in the adoption of two Chapter VII UN Security Council Resolutions – Resolutions 1737 and 1747 – imposing significant sanctions on Iran. 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. Perhaps most significantly on the finance side, the Security Council recognized the role that Iran's state-owned banks have played in facilitating Iran's proliferation activities in particular with the designation of Bank Sepah.

As the Deputy Secretary noted, domestic and international actions have been accompanied by Treasury's 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.

Since May, there have been some significant developments both on the domestic and international fronts.

In October, FATF issued a public statement confirming the extraordinary systemic risks that Iran poses to the global financial system. FATF also issued guidance to assist countries in implementing the financial provisions of the UN resolutions on Iran. That guidance identified customers and transactions associated with Iran as representing a significant risk of involvement in proliferation finance. Consistent with the FATF statement, jurisdictions all over the world have begun issuing warnings to their financial institutions of such risks

Conclusion

Our financial enforcement efforts have come a long way from sanctions measures we have applied to threats in the past. As demonstrated by our recent experience in the context of Iran, we have learned that the most effective measures are carefully targeted at illicit conduct; are multilateral in scope; and
are combined with private sector and foreign government outreach.

These principals hold true with respect to all illicit financing threats be they terrorism, proliferation, narcotics, or other criminal conduct. While in the past our broad-based country sanctions have been criticized by some as an inappropriate extension of U.S. law, these new targeted efforts have the effect of engaging our allies. Sanctions have the most comprehensive impact when applied cooperatively and collectively. We are working hard internationally, with governments and the private sector, to build consensus and capacity to do just that.

Thank you.

-30-

February 27, 2008
HP-842

Deputy Secretary Robert M. Kimmitt
Remarks Before the U.S. Israel Executive Summit

New York - Thank you, Professor Neeman, for that kind introduction. I would like to thank The Marker and the other sponsors for inviting me to this summit, and all of you for joining us today.

My actual invitation came from Yossi Vardi, with whom I have been friends for almost 7 years, from when we were both affiliated with AOL. When I visited Israel in December of last year, Yossi kindly invited my traveling team and me to dinner in Tel Aviv. Those of you who know Yossi are probably thinking the evening went quite late, filled with good food and good humor. Well, we had plenty of good food and humor, but Yossi was uncharacteristically rushed. Only with prodding did he admit that he remembered after inviting us that we were dining on the evening of his wedding anniversary, and he hoped we would understand if he had to leave dinner a bit early! How could I have possibly turned down a subsequent invitation from such a mensch?

The word mensch reminds me of advice I received from my predecessor, Ambassador Vernon Walters, as I left to be American Ambassador to Germany in 1991. He told me: "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 the one assembled here today. He spoke in his excellent German for 40 minutes and sat down, rather pleased with himself, only to have the host of the event stand and say, "Mr. Ambassador, thank you so much 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, my allotted 25 minutes only leaves me time today for "remarks," followed by a few questions.

I have been working on issues related to Israel's economy and security much of my professional life, and when I visited Israel in December, I had the opportunity to meet with senior policymakers and business leaders. It had been years since I had been in Israel, and I was struck by the vibrancy of the economy and the commitment of both government officials and private sector leaders to making the economy even stronger. I commended policymakers for their adherence to fiscal discipline and economic reform, which are two key factors behind the prosperity Israel enjoys today.

As all of you are very much aware, 2007 was a banner year for the Israeli economy and for U.S.-Israel economic cooperation. Israel's economy maintained its robust expansion of the past four years, during which it achieved annual growth rates over five percent. Unemployment was at its lowest level in a decade and the government deficit has not been lower since the mid-80s. Trade between our countries increased by 12 percent and U.S. tourism in Israel reached the highest level ever.

The Israeli economy is well-positioned to weather the ongoing turmoil in the global financial markets and, by all accounts, growth is expected to remain strong in the coming year. An important contributor to Israel's solid economic performance--and one that I think is essential to ensuring continued growth--has been the economy's rapid integration with the rest of the world. Flows of nonresident investment into Israel and resident investment abroad together reached a record 40 percent of GDP in 2006.

The Importance of Investment

During my December visit, with the help of the Israel-American Chamber of

Commerce and the hospitality of Professor Neeman's law firm, I was able to spend considerable time with a number of Israel's leading firms. I discussed with them many of the concepts I would like to share with you today. Principally, I made the case that investment flows are one of the most important ways our economies benefit from globalization.

It is a common misperception that our expanding interdependence with other countries is based principally on growing levels of trade in goods and services. In fact, even though trade is clearly important, the value of trade in goods and services is only a small fraction of the value of cross-border investment transactions. In 2006, for example, cross-border transactions in long-term securities involving U.S. and foreign residents totaled $52 trillion, compared to $3.6 trillion in U.S. exports and imports of goods and services. Likewise, in Israel, while imports and exports of goods and services increased nearly nine percent in 2006, cross-border investment flows doubled. And bilateral investment between our countries is growing very rapidly. From 2000 to 2006 the stock of U.S. direct investment in Israel nearly tripled, rising from $3.7 billion to $10 billion. The stock of Israeli investment in the United States more than quadrupled over the same period, rising from $3 billion to more than $12 billion.

These investment flows – both inward and outward – bring substantial benefits to both countries. Cross-border investment in the United States and Israel fuels economic prosperity by creating well-paid jobs, bringing new technology and business methods, and providing healthy competition that fosters innovation, productivity gains, lower prices, and greater variety for consumers.

In 2006, foreign-owned firms contributed almost six percent of U.S. output, 14 percent of U.S. R&D spending, and 20 percent of U.S. exports. These firms re-invested over half of their U.S. income – $71 billion – back into the U.S. economy, and they accounted for 13 percent of U.S. corporate tax payments. Furthermore, U.S. affiliates of foreign firms employ over five million Americans directly and generate approximately five million more jobs indirectly, together accounting for almost one in 10 U.S. private sector jobs. It is worth emphasizing that these companies also pay on average 25 percent higher wages than comparable American-owned companies.

Israel has also benefited significantly from capital inflows. In 2006 Israel's booming high-tech sector was buoyed by almost $1 billion in venture capital funds from international firms. If the Israeli economy were less open to international investment, this important sector, which accounted for nearly half of non-diamond exports, would receive up to 60 percent less capital investment.

The originating country also realizes significant benefits from international investment. For example, when Israeli companies invest money in the United States to establish a U.S. base of operations, it dramatically increases the reach of these companies into the U.S. market and can be expected to boost Israeli exports. The same holds for U.S. investment abroad.

It is the significant benefits of international investment that have led countries around the world, including countries that not so long ago had closed economies, to lower investment barriers significantly over the past twenty years. According to the World Bank, global private capital flows increased by 500 percent between 1991 and 2005. Daily foreign exchange transactions have increased from $880 billion in 1992 to $3.2 trillion today.

With this growing global trade and financial interdependence, of course, comes a degree of vulnerability. The long-term fundamentals of the global economy remain solid. However, recent global economic and financial developments – including high energy prices, tight credit conditions, and the related volatility in the financial markets – have prompted growing protectionist sentiments around the world.

But raising barriers to international investment would do little to relieve the pressure and would, instead, generate economic disruptions. Countries that adopt restrictions on international investment would lose out to other nations in the competition for cross-border capital and the benefits that I have described. These restrictions would present countries with painful choices regarding taxes, government programs, and personal savings and consumption. They would also be faced with the prospect of backlash against their investors abroad.

In his May 2007 Statement on Open Economies, President Bush reiterated the longstanding U.S. commitment to open investment and noted that "a free and open international investment regime is vital for a stable and growing economy, both here at home and throughout the world." Reaffirming the gains made by lowering investment barriers will inspire confidence in the financial markets, while raising such barriers would do just the opposite. Navigating the current economic conditions will require focused and grounded policies, not short-sighted retrenchment.

We in the United States have taken a balanced approach that reinforces the benefits of investment while managing potential risks in two particular areas that I would like to discuss briefly today – addressing the rising concern over sovereign wealth funds and assessing the national security implications of foreign investments.

Sovereign Wealth Funds

The halls of government and the financial community are consumed with talk about sovereign wealth funds – large pools of capital managed separately from official reserves. These funds are estimated at $2.5 trillion today, growing to $12.5 trillion over the next 5 years.

All of us in the global economy have a stake in ensuring that the attention sovereign wealth funds are generating today does not feed protectionist pressures and result in ill-considered policy that undermines the global open investment environment more broadly. The Treasury Department is actively engaged on this issue.

First, the Department has taken a number of steps internally and has worked within the U.S. government to build a solid understanding of sovereign wealth funds, to form the foundation for reasoned policy-making. Within Treasury, a working group of experts from across the offices of the Department is focused on real-time monitoring, understanding, and analysis of issues related to sovereign wealth funds. The President's Working Group on Financial Markets, chaired by Secretary Paulson, brings together key U.S. policymakers to discuss the implications of the growth of these funds. Treasury has also actively reached out to governments of countries with significant sovereign wealth funds and to managers of the funds, establishing ongoing and candid dialogues. And we provide semi-annual updates to Congress on our sovereign wealth fund-related work in our *Report on International Financial and Exchange Rate Policies*.

Second, we are engaged on a multilateral basis to address the concerns of countries that have sovereign wealth funds and the countries in which the funds invest. For example, last May Treasury hosted a G-20 workshop on commodity cycles and financial stability that included a session on sovereign wealth funds. At last October's World Bank/IMF meetings in Washington, Secretary Paulson hosted a G-7 outreach dinner with finance ministers and heads of sovereign wealth funds from eight countries – China, Korea, Kuwait, Norway, Russia, Saudi Arabia, Singapore, and the United Arab Emirates – to discuss the benefits of a comprehensive approach to this issue that could culminate in the establishment of best practices for sovereign wealth funds.

The IMF is currently working to develop best practices for sovereign wealth funds that build on its existing guidelines for foreign exchange reserve management. We envision that such a framework would include the following areas: investing commercially, not politically; competing fairly with the private sector; promoting international financial stability; and respecting host country rules.

Finally, it is not enough that a set of best practices exists for sovereign wealth funds alone. Equally important is ensuring that recipients of sovereign wealth fund investments – and foreign government-controlled investments more broadly – have a set of practices that can help guide their investment policies and reviews. The Organization for Economic Cooperation and Development (OECD) is best positioned to identify such practices and is actively engaged in this effort. Investment best practices should focus on avoiding protectionism and should adhere to well-established principles of proportionality, predictability, and accountability embraced by the OECD and its members for the treatment of foreign investment. We are hopeful that this effort will lead to the release of guidance later this year.

Committee on Foreign Investment in the United States

A commitment to open investment is not at odds with protecting national security, which must always remain a nation's top priority. To the contrary, our experience has shown that it is possible to safeguard national security while continuing to welcome foreign investment.

The United States is committed to taking all steps necessary to protect the national security of the country. At the same time, national security is well served by a vibrant economy and must not be used as an excuse for the pursuit of protectionist policies, industrial policy, or the creation of national champions. Investment reviews must focus on genuine national security concerns, not broader economic or other national interests. Furthermore, investment review regimes should be fundamentally based on predictability, and, when a particular transaction may pose a risk to national security, the policy response should be fair and proportional to the incremental risk.

One important mechanism in this regard is the Committee on Foreign Investment in the United States, known as CFIUS. The CFIUS process, which Treasury chairs, allows the United States to review foreign direct investment that results in foreign control of U.S. businesses and that may raise national security considerations.

Recent reforms have strengthened the CFIUS process and reinforced the longstanding U.S. commitment to open investment. The Foreign Investment and National Security Act, passed by Congress last year, is expressly based on this commitment to maintaining open investment while ensuring we continue to protect our national security. President Bush also reiterated the U.S. open investment policy through the Executive Order he issued last month to strengthen the CFIUS process. In his statement accompanying the Executive Order, he concluded with this important point: "...our openness is vital to our prosperity and security."

We will strive to ensure that the CFIUS process focuses only on investments that may raise genuine national security concerns; avoids unnecessary delay in investment transactions; and introduces predictability into the system. We are preparing revised regulations to further implement the new law, which will become effective in the spring after a period of public comment. As required by Congress, Treasury is also working on additional guidance that we plan to release this spring on the types of transactions that have raised national security concerns in the past. Such guidance should provide greater transparency to investors.

And I would note that CFIUS affects only a small portion of all international investment into the United States. In 2007, CFIUS reviewed fewer than eight percent of M&A transactions in the United States involving a foreign acquirer and a domestic firm. The reviews of over 80 percent of the transactions notified to CFIUS were completed within 30 days, and only a small minority of these transactions required a second phase investigation or mitigation measures. Ultimately, consistent with its statutory mandate and our open investment policy, CFIUS seeks to resolve any concerns rather than prohibit transactions.

In large measure due to the growth in the size and number of the sovereign wealth funds discussed earlier, investment review processes appear to be proliferating globally. A number of countries, including Australia, China, Canada, Germany, Korea, and Russia, have recently instituted new reviews or appear to be moving toward doing so. Our experience with CFIUS, and especially our recent and ongoing reforms, has positioned us well to encourage other countries to avoid using investment review processes for protectionist purposes and instead focus narrowly on genuine national security concerns.

Shared Responsibility

Ladies and gentlemen, I have touched in my remarks on our government's view of the importance of open investment; the need to avoid ill-informed and protectionist responses to turbulence in the markets; and how the United States has sought to deal with the challenges of international investment in connection with sovereign wealth funds and national security concerns.

For many, if not most of you, these are not academic or theoretical issues. How our

government and other governments address the challenges that I have discussed today could significantly affect the welfare of your companies. You know first hand the benefits of an open investment environment and understand, perhaps better than anyone else, the harm that would come if we or others turn inward and protectionist. I encourage you to share this understanding and your support of open investment with policymakers in Washington, in Israel, and in all countries crucial to your global success.

We look forward to being your partner in this important initiative, and I welcome you to visit the Treasury Department on your next trip to Washington. Don't expect free samples from the U.S. Mint or the Bureau of Engraving and Printing – but do expect to find a Treasury team committed to open investment and very open to helping Israeli investors identify good opportunities in the United States, even as we help American investors identify similar opportunities in Israel.

Thank you again for your invitation and your kind attention. Very best wishes for the success of this important conference, and I now welcome your questions.

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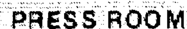

February 27, 2008
hp-843

President's Council on Financial Literacy Supports Treasury Launch of New Curriculum

Washington - The Treasury Department helped launch a new curriculum to improve the personal financial literacy of middle school students today with support from the President's Advisory Council on Financial Literacy. The free program, titled Money Math: Lessons for Life, helps teachers integrate personal finance topics into mathematics classes.

Money Math is a four-lesson, 86-page curriculum that uses real-life examples to teach personal finance through middle school mathematics concepts. The President's Advisory Council on Financial Literacy recently recommended that Treasury actively promote the project through its outreach efforts and through the Financial Literacy and Education Commission's MyMoney.gov website.

The University of Missouri/St. Louis, JumpStart Coalition for Personal Finance, and Citi worked in consultation with Treasury on the new version of Money Math. Treasury's Bureau of Public Debt will distribute the curriculum to teachers.

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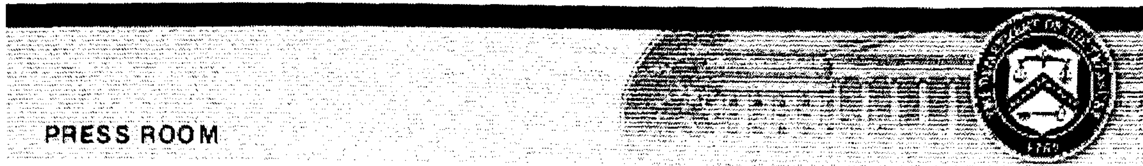


February 28, 2008
hp-845

Treasury Designates Members of Abu Ghadiyah's Network
Facilitates flow of terrorists, weapons, and money from Syria to al Qaida in Iraq

Washington – The U.S. Department of the Treasury today designated four individuals facilitating and controlling the flow of money, weapons, terrorists, and other resources through Syria to al Qaida in Iraq (AQI), including to AQI commanders.

"Since the fall of Saddam Hussein's regime, Syria has become a transit station for al Qaida foreign terrorists on their way to Iraq," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "Abu Ghadiyah and his network go to great lengths to facilitate the flow through Syria of money, weapons, and terrorists intent on killing U.S. and Coalition forces and innocent Iraqis."

Today's action was taken pursuant to Executive Order 13224, which targets terrorists and those providing financial or material support to terrorism. Any assets these designees have under U.S. jurisdiction will be frozen, and U.S. persons are prohibited from engaging in business or transactions with the designees.

Identifier Information

BADRAN TURKI HISHAN AL MAZIDIH

AKAs: Al-Mazidih, Badran Turki al-Hishan
Abu Ghadiyah
Al Mezidi, Badran Turki Hishan
Hishan, Badran Turki
Hisham, Badran al-Turki
Al-Turki, Badran
Al-Sha'bani, Badran Turki Hisham al-Mazidih
Abu 'Abdallah
Abu Abdullah
Shalash, Badran Turki Hayshan
Abu 'Azzam
DOB: 1977
Alt. DOB: 1978 or 1979
POB: Mosul, Iraq
Residence: Zabadani, Syria

Syria-based Badran Turki Hishan Al Mazidih, also known as Abu Ghadiyah, runs the AQI facilitation network, which controls the flow of money, weapons, terrorists, and other resources through Syria into Iraq. Former AQI leader Abu Mus'ab al-Zarqawi appointed Badran as AQI's Syrian commander for logistics in 2004. After Zarqawi's death, Badran began working for the new AQI leader, Abu Ayyub Al-Masri. As of late-September 2006, Badran took orders directly from Masri, or through a deputy.

Badran obtained false passports for foreign terrorists, provided passports, weapons, guides, safe houses, and allowances to foreign terrorists in Syria and those preparing to cross the border into Iraq. Badran received several hundred thousand dollars from his cousin Saddah -- also designated today -- and used these funds to support anti-U.S. military elements and the travel of AQI foreign fighters. Badran has also been using AQI funds for his personal use.

As of the spring of 2007, Badran facilitated the movement of AQI operatives into Iraq via the Syrian border. Badran also directed another Syria-based AQI facilitator

to provide safe haven and supplies to foreign fighters. This AQI facilitator, working directly for Badran, facilitated the movement of foreign fighters primarily from Gulf countries, through Syria into Iraq.

GHAZY FEZZA HISHAN AL MAZIDIH

AKAs: Hishan, Ghazy Fezzaa
Abu Faysal
Shlash, Mushari Abd Aziz Saleh
Abu Ghazzy
DOB: 1974 or 1975
Residence: Zabadani, Syria

Ghazy Fezza Hishan Al Mazidih is Badran's cousin and a member of his AQI facilitation network. As of March 2006, Ghazy was Badran's "right-hand man." As second-in command, Ghazy worked directly with Badran, managed network operations, and acted as the commander for Badran's AQI network when Badran traveled. As of late-September 2006, Ghazy and Badran were planning to facilitate an AQI attack against Coalition forces and Iraqi police in Western Iraq. Ghazy and Badran planned to use rockets to attack multiple Coalition forces outposts and Iraqi police stations, in an attempt to facilitate an AQI takeover in Western Iraq.

AKRAM TURKI HISHAN AL MAZIDIH

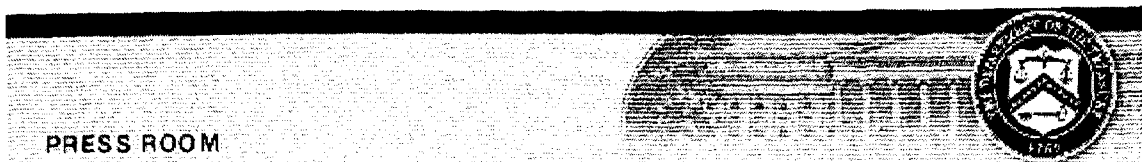
AKAs:
Al-Mazidih, Akram Turki Hishan
Abu Jarrah
Abu Akram
Al-Hishan, Akram Turki
DOB: 1974 or 1975
Alt. DOB: 1979
Residence: Zabadani, Syria

Akram Turki Hishan Al Mazidih is Badran's brother and a member of his AQI facilitation network. As of early 2006, AQI leaders Akram and Badran directed AQI operations near Al Qa'im, Iraq. In late-November 2006, Akram smuggled weapons from Syria for use in Iraq. As of late-September 2005, Akram acted on behalf of AQI by ordering the execution of AQI's enemies. Akram also ordered the execution of all persons found to be working with the Iraqi Government or U.S. Forces, and at least one of Akram's orders resulted in the execution of two Iraqis in Al Qa'im, Iraq.

SADDAH JAYLUT AL-MARSUMI

AKAs: Al-Marsumi, Sa'da Jalut Hassam
Jalout, Saddaa
Jaloud, Sa'daa
DOB: 1955 or 1956
Citizenship: Syrian
Residence: Al Shajlah Village, Syria
Alt. Residence: As Susah Village, Syria
Alt. Residence: Baghuz, Syria

As of the spring of 2006, Saddah Jaylut Al-Marsumi, Badran's cousin, was an AQI financier who worked with Badran and other AQI facilitators to transport several unidentified Syrian suicide bombers into Iraq on behalf of AQI. Saddah also facilitated the financing and smuggling of AQI foreign fighters from Syria into Iraq. As of early 2006, Saddah transferred several hundred thousand dollars to a hawala in Iraq, where Badran received the funds and used them to support anti-U.S. military elements and the travel of AQI foreign fighters.



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February 28, 2008
HP-846

Paulson Statement on First Stimulus Payment Notice

"These letters are the first step in an extensive outreach effort Treasury and the IRS will be leading over the weeks ahead to inform qualified Americans how to get their stimulus payment.

"For the majority of Americans, all they will need to do is file a tax return. The IRS is working closely with the Department of Veterans' Affairs, the Social Security Administration, Members of Congress, AARP, and other groups to reach those who do not normally file a return and ensure they know how to get their stimulus payment this year."

REPORTS

- Economic Stimulus Payment Notice

Department of the Treasury
Internal Revenue Service

Notice 1377 (February 2008)
Catalog Number 51255B

www.irs.gov

Economic Stimulus Payment Notice

Dear Taxpayer:

We are pleased to inform you that the United States Congress passed and President George W. Bush signed into law the Economic Stimulus Act of 2008, which provides for economic stimulus payments to be made to over 130 million American households. Under this new law, you may be entitled to a payment of up to $600 ($1,200 if filing a joint return), plus additional amounts for each qualifying child.

We are sending this notice to let you know that based on this new law the IRS will begin sending the one-time payments starting in May. To receive a payment in 2008, individuals who qualify will not have to do anything more than file a 2007 tax return. The IRS will determine eligibility, figure the amount, and send the payment. This payment should not be confused with any 2007 income tax refund that is owed to you by the federal government. Income tax refunds for 2007 will be made separately from this one-time payment.

For individuals who normally do not have to file a tax return, the new law provides for payments to individuals who have a total of $3,000 or more in earned income, Social Security benefits, and/or certain veterans' payments. Those individuals should file a tax return for 2007 to receive a payment in 2008.

Individuals who qualify may receive as much as $600 ($1,200 if married filing jointly). Even if you pay no income tax but have a total of $3,000 or more in earned income, Social Security benefits, and/or certain veterans' payments, you may receive a payment of $300 ($600 if married filing jointly).

In addition, individuals eligible for payments may also receive an additional amount of $300 for each child qualifying for the child tax credit.

For taxpayers with adjusted gross income (AGI) of more than $75,000 (or more than $150,000 if married filing jointly), the payment will be reduced or phased out completely.

To qualify for the payment, an individual, spouse, and any qualifying child must have a valid Social Security number. In addition, individuals cannot receive a payment if they can be claimed as a dependent of another taxpayer or they filed a 2007 Form 1040NR, 1040NR-EZ, 1040-PR, or 1040-SS.

All individuals receiving payments will receive a notice and additional information shortly before the payment is made. In the meantime, for additional information, please visit the IRS website at *www.irs.gov.*

FOLD AND DETACH ALONG PERFORATION

Department of the Treasury
Internal Revenue Service
Fresno, CA 93888-0500

Official Business
Penalty for Private Use, $300

ENCLOSED IS AN IMPORTANT MESSAGE FROM THE IRS ON THE ECONOMIC STIMULUS ACT OF 2008. DO NOT THROW AWAY!

PRESORTED
FIRST-CLASS MAIL
Postage and Fees Paid
Internal Revenue Service
Permit No. G-48

FOLD AND DETACH ALONG PERFORATION

FOLD AND DETACH ALONG PERFORATION

Notice 1377 (February 2008)
Catalog Number 51255B

How To Determine Your Stimulus Payment

If your Net Income Tax Liability is: *(Net income tax liability is tax before credits, including the alternative minimum tax, less all nonrefundable credits other than the allowable child tax credit.)*	**If your Qualifying Income is:** *(Qualifying Income is earned income, Social Security benefits, and certain veterans' payments.)*	
	At least $3,000	**Under $3,000**
More than zero	Your stimulus payment is your net income tax liability up to $600 (or $1,200 for joint filers). **However,** generally your stimulus payment will not be less than $300 ($600 for joint filers).**	
Zero ($0)	Your stimulus payment will be $300 ($600 for joint filers).	You will not receive a stimulus payment.

** In addition, if qualifying income is under $3,000, gross income must exceed $8,750 if single or married filing a separate return, $17,500 if married filing a joint return, $11,250 if head of household, or $14,100 if qualifying widow(er).

Additional Stimulus Payment for Children. Individuals eligible for payments may also receive an additional $300 for each qualifying child for the child tax credit.

Reduction for Higher Income Taxpayers. The stimulus payments are reduced for taxpayers with adjusted gross income (AGI) of more than $75,000 (more than $150,000 if married filing jointly).

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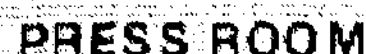
PRESS ROOM

February 28, 2008
HP-847

Comments by Secretary Paulson on Economy and Housing

Treasury Secretary Henry M. Paulson, Jr. will speak at the Economic Club of Chicago at 8:00 p.m. local time tonight. His remarks will cover a variety of topics, including the state of the economy, the housing markets and the credit markets, and policies we are pursuing in each area. Below are points he will make with regard to housing. These quotes can be attributed to him.

"While I expect the economy to continue to grow this year, the housing correction continues to pose the biggest downside risk. And we at Treasury are focused on the housing and mortgage markets."

"Let's put this in perspective: 93% of mortgages are paid on time. Less than 2% are in foreclosure."

"So while some in Washington are proposing big interventions, most of the proposals I've seen would do more harm than good. I'm not interested in bailing out investors, lenders and speculators. I'm focused on solutions targeted at struggling homeowners who want to keep their homes."

"This is a shared responsibility. If borrowers aren't willing to ask for help or respond to efforts to reach them, there is only so much that others can or should do on their behalf."

"Being "underwater" when you can afford your mortgage does not affect your ability to pay your mortgage. Homeowners who can afford their mortgage should honor their obligations. And nearly all do. Homeowners who can't afford their payments are the borrowers we are working to reach with affordable solutions. Homeowners who gambled in the housing market and viewed their purchase as a short term investment may choose to walk away. Those who do this are nothing more than speculators, and they are not the focus of our efforts."

"Falling home prices exacerbate foreclosures for those who can't afford their mortgage payment, either because of a change in ability to pay or because of an ARM reset – an income problem or a product problem. It is these borrowers who are faced with the prospects of foreclosure even when they want to remain in their homes. And that is where our efforts are aimed."

"We have a two pronged policy that focuses on these two sources of rising foreclosures: first, a stimulus package to support the economy and create jobs so that there will be fewer who will suffer income loss; second, a focused effort to help struggling homeowners who want to keep their homes."

"We encouraged mortgage industry participants to establish the HOPE NOW alliance to help all struggling borrowers. The alliance has placed a particular focus on subprime ARM borrowers. The member companies are already making progress -- the number of subprime modifications in the fourth quarter more than doubled over the third quarter."

"In January, the SEC signed off on a new protocol for streamlining some subprime borrowers into modifications and refinances. Servicers began to implement it then, some faster than others. I look forward to seeing the results for January soon. They will serve as a baseline for measuring the effectiveness of this effort going forward. I'll be examining the results closely – it's important to see that everyone who signed up for this protocol is following through on their commitment to implement it. I won't look kindly on free riders."

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February 28, 2008
HP-848

U.S. Treasury Department Statement on the FATF Public Statement on Iran

Washington – The U.S. Treasury Department today issued the following statement:

"The Financial Action Task Force's statement on Iran today sends a clear message to governments and financial institutions worldwide that the threat Iran poses to the international financial system continues unabated. Not only has FATF reiterated its October statement expressing concern about Iran's anti-money laundering and counter-terrorist financing deficiencies, the FATF has called upon its members to advise their financial institutions of this risk and urged all other countries to do the same."

"Treasury commends FATF, as the premier standard-setting body for countering terrorist financing and money laundering, for its responsible action in response to Iran's failure to institute an anti-money laundering and counter-terrorist financing regime that meets international standards."

Today's FATF statement is available at:

http://www.fatf-gafi.org/dataoecd/16/26/40181037.pdf

The FATF statement from October 2007 is available at:

http://www.fatf-gafi.org/dataoecd/1/2/39481684.pdf

The Financial Action Task Force is an inter-governmental body whose purpose is the development and promotion of policies, both at the national and international levels, to combat money laundering and terrorist financing. The thirty-four members of the FATF are: Argentina; Australia; Austria; Belgium; Brazil; Canada; China; Denmark; the European Commission; Finland; France; Germany; Greece; the Gulf Cooperation Council; Hong Kong, China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; the United Kingdom; and the United States.

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REPORTS

- Today's FATF statement is available at:
- The FATF statement from October 2007 is available at:

FATF STATEMENT

28 FEBRUARY 2008

UZBEKISTAN

The FATF is particularly concerned that a series of presidential decrees in Uzbekistan has effectively repealed the anti-money laundering/combating the financing of terrorism (AML/CFT) regime in that country and generates a money laundering/financing of terrorism (ML/FT) vulnerability in the international financial system. The FATF calls upon Uzbekistan to restore its AML/CFT regime and to work with the Eurasian Group to establish an AML/CFT regime that meets international standards. The FATF calls on its members and urges all jurisdictions to advise their financial institutions to take the risk arising from the deficiencies in Uzbekistan's AML/CFT regime into account for enhanced due diligence.

IRAN

Since its October 2007 Plenary meeting, the FATF has engaged with Iran and welcomes the commitment made by Iran to improve its AML/CFT regime. Consistent with its Statement on Iran, dated 11 October 2007, the FATF confirms its call to its members and urges all jurisdictions to advise their financial institutions to take the risk arising from the deficiencies in Iran's AML/CFT regime into account for enhanced due diligence. Iran is encouraged to continue its engagement with the FATF and the international community to address, on an urgent basis, its AML/CFT deficiencies.

PAKISTAN

The FATF notes Pakistan's recent progress in adopting AML legislation. However, financial institutions should be aware that the remaining deficiencies in Pakistan's AML/CFT system constitute a ML/FT vulnerability in the international financial system. Pakistan is urged to continue its efforts to improve its AML/CFT laws to come into closer compliance with international AML/CFT standards and to work closely with the Asia Pacific Group to achieve this.

TURKMENISTAN

The FATF is concerned with deficiencies in the AML/CFT regime of Turkmenistan. The FATF welcomes the recent steps this jurisdiction has taken to address these concerns and calls upon Turkmenistan to continue to engage with the international community on these issues.

SÃO TOMÉ AND PRÍNCIPE

The FATF is concerned with deficiencies in the AML/CFT regime of São Tomé & Príncipe. The FATF welcomes the recent steps this jurisdiction has taken to address these concerns and calls upon São Tomé & Príncipe to continue to engage with the international community on these issues.

TRANSACTIONS WITH FINANCIAL INSTITUTIONS OPERATING IN THE NORTHERN PART OF CYPRUS

The FATF welcomes the recent progress in policies and practices to combat money laundering and terrorist financing in the northern part of Cyprus. However, given the existing deficiencies, the FATF calls on its members and urges all jurisdictions to advise their financial institutions to pay special attention to the ML/FT risks in transactions with financial institutions operating in the northern part of Cyprus. The FATF encourages further progress to address the deficiencies.

Notes:

1. For further information, journalists are invited to contact Helen Fisher, OECD Media Relations, (Tel: +33 1 45 24 80 97 or helen.fisher@oecd.org) or the FATF Secretariat, 2, rue André-Pascal, 75775 Paris Cedex 16 (tel: +33 1 45 24 79 45, fax: +33 1 44 30 61 37, email: contact@fatf-gafi.org).

2. The FATF is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. The FATF Secretariat is housed at the OECD.

3. The thirty-four members of the FATF are: Argentina; Australia; Austria; Belgium; Brazil; Canada; China; Denmark; the European Commission; Finland; France; Germany; Greece; the Gulf Co-operation Council; Hong Kong,China; Iceland; Ireland; Italy; Japan; Luxembourg; Mexico; the Kingdom of the Netherlands; New Zealand; Norway; Portugal; the Russian Federation; Singapore; South Africa; Spain; Sweden; Switzerland; Turkey; the United Kingdom; and the United States.

4. India and the Republic of Korea are observer countries. The Asia Pacific Group on money laundering (APG)[1], the Caribbean Financial Action Task Force (CFATF)[2], the Grupo de Acción Financiera de Sudamérica (GAFISUD)[3], the Middle East and North Africa Financial Action Task Force (MENAFATF)[4] and the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL)[5] are Associate Members.

5. The global network that is committed to combating money laundering and terrorist financing also includes three other regional bodies: the Eastern and South African Anti Money Laundering Group (ESAAMLG)[6], the Eurasian Group on combating money laundering and financing of terrorism (EAG)[7] and the Groupe Inter-gouvernemental d'Action contre le Blanchiment en Afrique (GIABA)[8]. The Offshore Group of Banking Supervisors (OGBS)[9] is a part of this network as well.

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[1] www.apgml.org
[2] www.cfatf.org
[3] www.gafisud.org
[4] www.menafatf.org
[5] www.coe.int/moneyval
[6] www.esaamlg.org
[7] www.eurasiangroup.org
[8] www.giaba-westafrica.org
[9] www.ogbs.net

Financial Action Task Force ♦ Groupe d'action financière

FATF STATEMENT ON IRAN

Paris, 11 October 2007

The Financial Action Task Force (FATF) is concerned that the Islamic Republic of Iran's lack of a comprehensive anti-money laundering / combating the financing of terrorism (AML/CFT) regime represents a significant vulnerability within the international financial system. FATF calls upon Iran to address on an urgent basis its AML/CFT deficiencies, including those identified in the 2006 International Monetary Fund Article IV Consultation Report for Iran.

FATF members are advising their financial institutions to take the risk arising from the deficiencies in Iran's AML/CFT regime into account for enhanced due diligence.

FATF looks forward to engaging with Iran to address these deficiencies.

Notes:

1. For further information, journalists are invited to contact Mr. Rick McDonell, Executive Secretary, FATF (email: contact@fatf-gafi.org).

2. The FATF is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. The FATF Secretariat is housed at the OECD.

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7 www.eurasiangroup.org
8 www.giaba-westafrica.org
9 www.ogbs.net

February 29, 2008
hp-849

Remarks by Assistant Secretary
for Terrorist Financing and Financial Crimes Patrick M. O'Brien
at the Second Annual U.S.-Latin America Private Sector Dialogue
on Anti-Money Laundering and Counter-Terrorist Financing

MIAMI – Buenos Dias. Good morning, ladies and gentlemen. Thank you for your time and the opportunity to dialogue today with such a distinguished and diverse group.

I would like to thank the Florida International Bankers Association for hosting this event here in Miami, for their preparation and planning, and for their gracious hospitality. As always, you have done a remarkable job. I also would like to thank FELABAN, AsoBancaria, FEBRABAN, the Bankers Association for Finance and Trade, and the various regulators from the US and Latin America – including the Central Banks of Argentina and Brazil – for their support in making this event a reality. The associations play a key role in the success of the US-Latin America Private Sector Dialogue and we thank those here for participating in this important discussion.

Today marks the second dialogue of this kind between our regions, and clearly demonstrates our continued commitment to building lasting relationships that enhance competitiveness and economic prosperity in the Western Hemisphere. We recognize that implementing financial measures and complying with an array of regulatory requirements to protect the financial system from money laundering and other crimes creates significant challenges for the private sector. In Secretary Paulson's speech at the inaugural Americas Competitiveness Forum last year, he emphasized the need to support private sector growth in the Americas by ensuring, among other things, that commercial lenders are not unnecessarily constrained by burdensome regulations or bureaucracy. Building on this project, the Treasurer of the United States, Anna Cabral, hosted Mexican Finance Secretary Agustín Carstens and other Latin American leaders this month for a Workshop on Financial Inclusion, which addressed ways to improve the regulatory landscape and enhance financial security in the Americas.

The U.S. Treasury Department is actively engaged with regional banking regulators and supervisors to achieve these objectives. For example, US regulators collaborate closely with foreign counterparts in international forums such as the Basel Committee on Banking Supervision. The Treasury Department's Office of Technical Assistance provides bilateral and multilateral guidance on defining and promoting the adoption of best practices. Through the FDIC's visitor program, foreign regulators are able to learn about the U.S. banking system in order to develop and educate their staff back home and to exchange information.

These are just a few examples, but what they demonstrate is that regulators are continuously dialoguing with their foreign counterparts to address financial system abuses through proposed legislation and ongoing administrative and regulatory actions.

This dialogue – the Private Sector Dialogue – is a forum in which the private sector institutions get the chance to compare notes and share experiences and best practices. The Private Sector Dialogue is not about finding a regulatory fix, but about how the private sector – within the existing regulatory frameworks – manages risk.

The goal of the US-LA PSD is to promote dialogue between the financial institutions of the United States and Latin America, in order to:

- Raise awareness of money laundering and terrorist financing risks;
- Facilitate a better understanding of effective practices and programs to combat such risks;
- Strengthen implementation of effective AML/CFT controls; and
- Exchange information and improve understanding of business cultures and norms.

We recognize that public-private dialogue on AML/CFT is essential to promoting the transparency and efficacy of the global financial system. Regulators are present here today to listen and to provide perspective. There is no doubt regulators can be a valuable resource to this discussion. By participating in, and hearing the private sector exchange on key issues, they will be better informed in their regulatory efforts. However, it is the private sector that is on the front lines in implementing AML/CFT controls; it is the private sector that must manage risk and make tough compliance and business decisions on a day-to-day basis; and thus it is the private sector that must continue to drive this dialogue, aimed at enhancing a mutual understanding of real threats, improving best practices and enhancing business relationships. It is our hope and expectation that the ongoing dialogue among regulators will be deeply enriched by this, the Private Sector Dialogue ... your dialogue.

With us today we have a collection of financial compliance experts and practitioners from the U.S. and the Latin American region able to share their expertise and address difficult questions about building effective AML/CFT regimes. Our challenge, opportunity and commitment have never been greater or more important. The threats to international peace and security and to the global financial system continue to evolve, but so does our ability to combat these threats through targeted financial actions and through cooperative anti-money laundering efforts. It is through initiatives such as this Private Sector Dialogue that we can best develop and apply our growing capabilities, to not only protect the financial system from abuse, but also utilize financial information and apply measures to attack those that threaten global peace and security.

An important goal for today's Private Sector Dialogue is to set the foundation for the 3rd PSD, scheduled to take place over the course of two days during September 2008 in Sao Paulo, Brazil. By that time, our friend, fellow PSD founder and President of the Brazilian Financial Intelligence Unit, Gustavo Rodrigues, will have assumed his role as President of the Financial Action Task Force (GAFI, in Spanish and Portuguese) – meeting this week in Paris. We are very excited that the GAFI will be led by a representative of Latin America, and we look forward to focusing on this region through Gustavo's leadership.

Now is an optimal time to maximize and deepen already strong Western Hemispheric relations, as the global spotlight is magnified on Latin America.

We have just six hours remaining to dialogue today and there is much to be accomplished. The agenda ahead of us will cover correspondent banking, as well as bank secrecy and the exchange of information. We will also have an opportunity to learn about regulatory requirements to protect the financial system from a law enforcement perspective. As you discuss today's topics among your peers, I urge you to consider your own role in proactively addressing these issues. We will have achieved our objective today if we can reach consensus on what the most significant challenges are, and furthermore, come up with ideas on how to tackle these challenges. I encourage you, for example, to spearhead a topic-based working group that continues to dialogue over the next six months by working on a specific project, the results of which could be presented when we next meet in Sao Paolo. Your active participation is absolutely fundamental both to today's discussion, and going forward to ensuring a productive dialogue that is not merely restricted to the one or two times a year when we have the opportunity to meet in person, but that continues on an ongoing basis.

In sum, I would like to extend my gratitude to our panel facilitators, including those from the private and public sectors in the U.S. and across the Latin American region, for their work and leadership in preparing us for today's dialogue. We must maximize this unique opportunity to develop insights and innovative solutions to the daily challenges of protecting our global financial community.

I look forward to continuing our work together today to advance these goals.

Thank you, *muito obrigado* and *muchas gracias.*

-30-

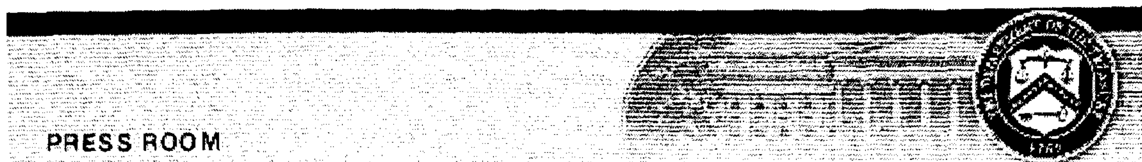
February 29, 2008
HP-850

Treasury Department Honored for Restoration and Modernization

Washington, D.C.--The Department of the Treasury was honored today by the Advisory Council on Historic Preservation (ACHP) for the historic restoration and appropriate modernization of the Treasury Building. The Treasury Historical Association, an affiliated non-profit organization that educates and assists the Treasury Department with historic preservation shares the recognition.

ACHP Chairman John L. Nau, III presented Treasury's Director of Facilities and Support Services James Thomas with the Chairman's Award for Federal Achievement in Historic Preservation. The ACHP is an independent federal agency that promotes the preservation, enhancement, and productive use of the nation's historic resources and advises the President and Congress on national historic preservation policy.

The Treasury Department completed a ten year, four-phase restoration and modernization project in October of 2006, the first in almost 100 years. Many of the most historic features of the building have been carefully restored and in some cases presented in ways that have not been seen since the early 1860s. During the construction project, many discoveries were made throughout the Treasury building that will become the focus of future restoration efforts. The project also allowed the Department to update the systems, infrastructure, and safety features of the building. For example, energy efficient lighting fixtures that replicate the historic fixtures were installed. A public-private partnership with the Treasury Historical Association resulted in the restoration of the decorative gilding on the Cash Room ceiling and restoration of the West Dome.



February 29, 2008
HP-851

Secretary Paulson to Visit California

Secretary Henry M. Paulson, Jr. will travel to California next week to discuss a range of issues critical to the global and U.S. economies and financial markets.

Paulson will be joined by U.S. Treasurer Anna Escobedo Cabral as well as members of the President's Financial Literacy Council for a discussion on financial education with community leaders in Oakland on Thursday. The group will discuss the importance of increasing financial education in the U.S., especially given the challenges many homeowners are facing today.

On Friday Paulson will discuss economic issues with local representatives of companies listed on the NASDAQ. To highlight the importance of clean energy technology to the environment and the economy, Paulson will tour the headquarters of an energy company and meet with employees there working on innovative solutions. In a speech that evening Paulson will address the 2008 Stanford Institute of Economic Policy Research Economic Summit.

The following events are open to the media:

What
Operation Hope Financial Literacy Town Hall
When
Thursday, March 6, 2:00 p.m. PST
Where
HOPE Center
3062 E 9th Street
Oakland
Note
Press should RSVP to Roberta Wong Murray at (415) 399-8220 or roberta.wong@bankofthewest.com.

What
Press Availability with NASDAQ CEO Bob Greifeld
When
Friday, March 7, 1:15 p.m. PST
Where
Four Seasons Hotel
2050 University Avenue
East Palo Alto
Note
Press should RSVP to Jolene Libretto at (646) 441-5220 or Jolene.Libretto@nasdaq.com.

What
Tour and Remarks to Employees of Bloom Energy Headquarters
When
Friday, March 7, 2:00 p.m. PST
Where
Bloom Energy
1252 Orleans Drive
Sunnyvale
Note
Press should RSVP to Josh Richman at (408) 543-1547 or jrichman@bloomenergy.com.

What

Remarks to the 2008 Stanford Institute for Economic Policy Research Economic Summit

When

Friday, March 7, 7:00 p.m. PST

Where

Frances C. Arrillaga Alumni Center
326 Galvez Street
Palo Alto

Note

Press should RSVP to Michelle Mosman at (650) 725-1872 (office), (650) 722-0798 (cell) or mmosman@stanford.edu.

February 29, 2008
HP-852

U.S., Malta to Negotiate Income Tax Treaty

Washington, DC--The United States and Malta announced today that they plan to begin negotiation of a bilateral income tax treaty. The first round of negotiations are expected to take place March 24 to 26 in Valletta, Malta.

The Treasury Department invites written comments from the public regarding the upcoming negotiations. Comments should be sent to Michael Mundaca, Deputy Assistant Secretary for International Tax Affairs, Room 3024 Main Treasury Building, 1500 Pennsylvania Ave., NW, Washington, DC 20220.

Comments also may be sent by fax to (202) 622-0646, or by e-mail to Michael.Mundaca@do.treas.gov.

PRESS ROOM

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February 29, 2008
HP-853

Preliminary Report on Foreign Holdings Of U.S. Securities At End-June 2007

Preliminary data from a survey of foreign portfolio holdings of U.S. securities at end-June 2007 are released today on the U.S. Treasury web site at (http://www.treas.gov/tic/fpis.html). A revised table on Major Foreign Holders of Treasury Securities, where estimates through end-December 2007 are based in part on survey data, is also released at (http://www.treas.gov/tic/ticsec2.html, on line 5). Final survey results, which will include additional detail as well as possible revisions to the preliminary data, will be reported on April 30, 2008. The survey was undertaken jointly by the U.S. Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System. The next survey will be for end-June 2008, and preliminary data are expected to be released by February 27, 2009.

Complementary surveys measuring U.S. holdings of foreign securities are also carried out annually. Data from the most recent survey, reporting on securities held on year-end 2007, are currently being processed. Preliminary results are expected to be reported by August 29, 2008.

Overall Preliminary Results

The survey measured foreign holdings of U.S. securities as of June 30, 2007, to be $9,772 billion, with $3,130 billion held in U.S. equities, $6,007 billion in U.S. long-term debt securities[1] (of which $1,472 billion are holdings of asset-backed securities (ABS)[2] and $4,535 billion are holdings of non-ABS securities), and $635 billion held in U.S. short-term debt securities. The previous survey, conducted as of June 30, 2006, measured foreign holdings of $2,430 billion in U.S. equities, $4,733 billion in U.S. long-term debt securities, and $615 billion in short-term U.S. debt securities (see Table 1).

1. Long-term debt securities have an *original* term-to-maturity of over one year.
2. Asset-backed securities are backed by pools of assets, such as pools of residential home mortgages or credit card receivables, which give the security owners claims against the cash flows generated by the underlying assets. Unlike most other debt securities, these securities generally repay both principal and interest on a regular basis, reducing the principal outstanding with each payment cycle.

Table 1. Foreign holdings of U.S. securities, by type of security, as of recent survey dates

(Billions of dollars)

Type of Security	June 30, 2006	June 30, 2007
Long-term Securities	7,162	9,136
Equity	2,430	3,130
Long-term debt	4,733	6,007
Asset-backed	980	1,472
Other	3,753	4,535

Short-term debt securities	615	635
Total	7,778	9,772
Of which: Official	2,301	2,823

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, 2007

(Billions of dollars)

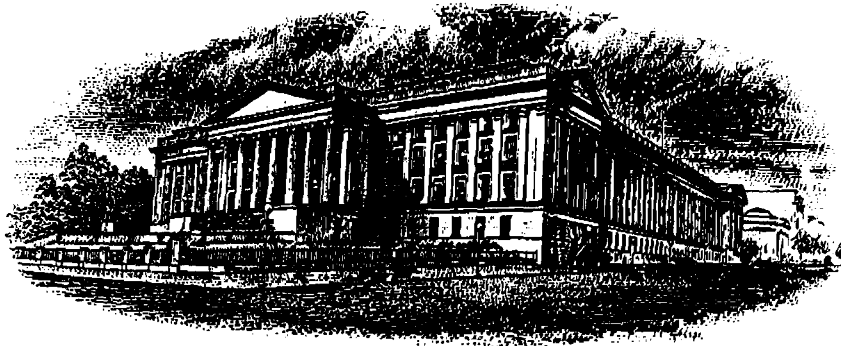
	Country or category	Total	Equities	Long-term debt		Short-term
				ABS	Other	debt
1	Japan	1,197	220	133	768	76
2	China (Mainland) 1	922	29	217	653	23
3	United Kingdom	921	421	160	316	24
4	Cayman Islands	740	279	236	186	38
5	Luxembourg	703	235	104	320	44
6	Canada	475	347	23	83	22
7	Belgium	396	25	56	313	3
8	Ireland	342	81	75	101	85
9	Switzerland	329	174	41	99	15
10	Netherlands	321	185	64	59	13
11	Middle East Oil Exporters[2]	308	139	18	107	44
12	Germany	266	100	51	105	11
13	Bermuda	238	90	53	80	15
14	France	221	132	36	48	6
15	Singapore	175	108	13	52	3
16	Australia	165	87	8	62	9
17	Russia	148	0	0	109	39
18	Korea, South	138	5	13	105	15
19	Hong Kong	138	31	24	75	9
20	Taiwan	121	11	27	80	3
21	Norway	109	56	26	22	5
22	British Virgin Islands	108	67	2	32	7
23	Mexico	107	19	2	74	13
24	Brazil	106	1	0	103	2
25	Sweden	99	60	4	32	4
	Country Unknown	214	0	1	211	2
	Rest of the World	762	228	87	342	106
	Total	**9,772**	**3,130**	**1,472**	**4,535**	**635**

	of which: Official	2,823	266	280	2,021	256	

1. Excludes Hong Kong, Macau, and Taiwan, which are reported separately.
2. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

REPORTS

- Preliminary Report on Foreign Holdings Of U.S. Securities At End-June 2007 (PDF)



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 4 p.m. (EDT), February 29, 2008

CONTACT Rob Saliterman, (202) 622-2960

PRELIMINARY REPORT ON FOREIGN HOLDINGS OF U.S. SECURITIES AT END-JUNE 2007

Preliminary data from a survey of foreign portfolio holdings of U.S. securities at end-June 2007 are released today on the U.S. Treasury web site at (http://www.treas.gov/tic/fpis.html). A revised table on Major Foreign Holders of Treasury Securities, where estimates through end-December 2007 are based in part on survey data, is also released at (http://www.treas.gov/tic/ticsec2.html, on line 4). Final survey results, which will include additional detail as well as possible revisions to the preliminary data, will be reported on April 30, 2008. The survey was undertaken jointly by the U.S. Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System. The next survey will be for end-June 2008, and preliminary data are expected to be released by February 27, 2009.

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1. Long-term debt securities have an *original* term-to-maturity of over one year.
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	of which: Official	2,823	266	280	2,021	256

1. Excludes Hong Kong, Macau, and Taiwan, which are reported separately.
2. Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

February 29, 2008
HP-854

Paulson Statement on Andean Trade Preference Act Signing

"Today's signing of the Andean Trade Preference Act is an important bridge as we work with Congress to pass the Colombia Free Trade Agreement and as we implement the Peru Free Trade Agreement.

"I thank all the members of Congress who supported this bipartisan legislation, and I look forward to working with Congress to further enhance opportunities for American workers and American businesses by passing the Free Trade Agreements with Colombia and Panama.

"The Colombia FTA will not only create jobs in the United States and give American companies important access to markets in Colombia, but will also be an important stabilizing force for democracy and economic progress in the region."

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