Department of the Treasury

PRESS RELEASES

HP-961 is not available. See HP-967.
HP-983, 1003 and 1019 are included, but not in the Index.
Numbers not used: HP-1027, 1028, 1029, 1039 and 1047.

PRESS ROOM

May 1, 2008
HP-955

Testimony of Deputy Assistant Secretary for Tax Policy
Karen Gilbreath Sowell
Before the House Ways and Means Subcommittee on Select Revenue Measures
on Tax Incentives for Higher Education

Washington --Mr. Chairman, Ranking Member English, and distinguished Members of the Subcommittee:

Introduction

Thank you for the opportunity to appear before the Subcommittee today to discuss tax incentives for higher education, which currently include more than a dozen credit, deduction, exclusion, and deferral provisions. While my testimony today focuses on tax incentives, I note that there are numerous non-tax governmental and other programs to help make higher education affordable and that figure into an individual's or family's decisions regarding higher education. The principal Federal student financial assistance programs are authorized under Title IV of the Higher Education Act of 1965, as amended, and this year will provide more than $90 billion in grant, loan and work-study assistance to students and their families. The Title IV programs include Federal Pell Grants, which serve low-income undergraduate students, and Federal student loans, both the bank-based Federal Family Education Loan program and the Department of Education's Direct Loan program, which serve undergraduate students and their parents, as well as graduate professional school students. In addition, colleges, universities, non-profit organizations, and the private sector furnish scholarships, tuition programs, and other assistance to students pursuing higher education, which according to the College Board exceeds $35 billion annually.

Education is important to the Administration, and we recognize that there is room for improvement in the tax benefits currently provided through the Internal Revenue Code to encourage higher education. We believe that the goal of providing incentives to make higher education affordable is best achieved by identifying the most efficient ways to address student needs and effectively utilizing those mechanisms. My testimony will focus first on a brief review of current tax incentives for college and other post-secondary education, and then discuss areas for potential improvement.

Over the last several decades, various provisions have been added to the Internal Revenue Code to facilitate savings for, and to incentivize the pursuit of, post-secondary education. Building on these existing provisions, the Administration and Congress have made significant progress during the past seven years to provide tax benefits related to higher education, particularly in helping families save for post-secondary education. Notably, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expanded Qualified Tuition Programs, also known as section 529 plans, to permit tax-free distributions from plan accounts to be used for post-secondary education expenses, and to allow private educational institutions (in addition to states) to create section 529 plans. The Pension Protection Act of 2006 made these changes to section 529 of the Internal Revenue Code permanent, which helped eliminate uncertainty with respect to this education savings vehicle. Further, the Administration's Budget for FY 2009 includes a proposal to extend the Saver's Credit to contributions to section 529 plans in order to encourage and assist lower-income families in saving for higher education.

EGTRRA also expanded Coverdell education savings accounts (formerly known as Education IRAs) by raising the annual contribution limit to Coverdell accounts from $500 to $2,000, and increasing the income phase-outs for joint filers. In addition, EGTRRA eliminated the disallowance of qualified distributions from Coverdell accounts or section 529 plans for those taxpayers who claim an education credit.

Notwithstanding these savings programs for those who have the ability and who have sufficient time to save for higher education, students and families who are facing immediate education-related costs must confront a patchwork of education-related tax incentives. Current law tax incentives may take the form of a credit against tax liability, a deduction from gross income, an exclusion from gross income, or a deferral of (or exemption from) tax. A detailed table of all the major tax incentives related to post-secondary education is attached as Table 1.

Set forth below is a brief overview of certain of the significant provisions under current law. Focusing on but a few of the available incentives reveals the complexity of these tax incentives, all of which are aimed at post-secondary education, but which apply to different people, in different circumstances, and for different educational ends. It is important to keep in mind that consideration of tax incentives is only one piece of the financial puzzle. Students pursuing higher education – be they recent high school graduates, high school graduates returning to higher education after entering the job market or raising a family, or professionals interested in pursuing an advanced degree or a different career – also have available to them the panoply of government grant and loan programs, as well as the many forms of non-governmental assistance available from educational institutions, non-profit organizations and the private sector.

Overview of Major Current Law Tax Incentives for Post-Secondary Education

As noted above, current law tax incentives may take the form of a credit, deduction, exclusion, or deferral. Many of these incentives have unique eligibility requirements, different phase-out limits, and various filing requirements. Generally, if an expense would qualify under more than one provision, current law allows only one tax benefit for the particular educational expense.

Credits

In 1997, Congress enacted a pair of tax credits to help families pay for higher education – the Hope Scholarship Credit (Hope Credit) and the Lifetime Learning Credit. In 2008, a taxpayer may claim a Hope Credit for 100 percent of the first $1,200 and 50 percent of the next $1,200 in qualified tuition and related expenses (for a maximum credit of $1,800 per student) for the first two years of college for a student enrolled at least half-time. A taxpayer may claim a Lifetime Learning Credit for 20 percent of up to $10,000 in qualified tuition and related expenses (for a maximum credit of $2,000) per taxpayer for any post-secondary education. Both credits are subject to an adjusted gross income (AGI) phase-out. In 2008, the credits phase out between $48,000 and $58,000 of AGI ($96,000 and $116,000 if married filing jointly). Only one credit may be claimed by each eligible student.

Dependent Related Deductions and Credits

For parents supporting college students, there is an extension of the benefit provided by the personal exemption for full-time students aged 19 through 23. Dependent children over the age of 18 do not qualify as children for the personal exemption unless they remain full-time students (through age 23). In 2008 the personal exemption amount is $3,500.

This favorable treatment of a full-time student aged 19 through 23 as a qualifying child also applies for purposes of the Earned Income Tax Credit (EITC). The EITC is a refundable tax credit for working families with low incomes. The EITC for families with one eligible child phases in over the first $8,580 of earned income for a maximum credit of $2,917. The credit phases out between $15,740 and $33,995 of earned income ($18,740 and $36,995 for joint filers). For families with modest incomes, allowing dependent students to qualify as children for EITC purposes provides the families supporting the students with a large tax benefit.

Deductions

A deduction may be allowed above-the-line (i.e., without itemization) for up to $2,500 of interest per year on any qualified education loan, subject to an AGI phase-out beginning at $55,000 ($115,000 if married filing jointly). In addition, through 2007, a taxpayer could claim an above-the-line deduction for qualified tuition and related expenses. The maximum amount of the deduction was $4,000 for taxpayers with AGI below $65,000 ($136,000 if married filing jointly), or $2,000 for taxpayers with AGI between $65,000 and $80,000 ($136,000 and $160,000 if married filing jointly) in 2007.

Moreover, deductions may be allowed to taxpayers for work-related education expenses. An employee who itemizes deductions may deduct work-related education expenses as one of a class of miscellaneous itemized deductions subject to a floor of 2 percent of AGI. Similarly, if an employer pays an employee's education expenses and the reimbursement does not take place through an accountable plan, the amount reimbursed is included in the employee's gross income, but the employee may deduct the expenses as a miscellaneous itemized deduction subject to the 2-percent floor.

Exclusions from Income

In addition to any available credits or deductions, any student who receives a qualified scholarship to a degree-granting program (including certain Federal medical training programs) may exclude from gross income amounts used to pay qualified tuition and related expenses, including fees, books, supplies, and required equipment. Under another provision, originally enacted in 1976, a student may exclude from gross income the amount of a loan that is forgiven if the student works for a required period of time in certain professions or locations. For example, after graduating from college, a student might have a loan forgiven if he or she were to become a teacher in an underserved community. Additionally, there is an unlimited exclusion from the gift and generation-skipping transfer tax for tuition paid directly to a school on behalf of a student, resulting in an incentive to make gifts of college tuition

There are also incentives for individuals to continue their education while employed. An employee may exclude employer-provided education expenses (up to $5,250 since 1986) that are part of an Educational Assistance Program (EAP). Under an EAP, there is no requirement that the education be work-related. In addition, like other work-related expense reimbursements, an employee may exclude from gross income employer reimbursements for work-related education made under an accountable plan.

Certain colleges and universities offer tuition-reduction programs to their employees (which can include the employee's spouse or dependent child). Tuition benefits under such programs may be excluded from gross income. Also, certain graduate students employed in teaching or research may exclude tuition reductions from gross income.

Savings Related Deferrals and Exclusions

Traditionally, tax deferral has been afforded to income saved for retirement in an Individual Retirement Arrangement (IRA). Since 1998, an IRA distribution for qualified higher education expenses has been permitted, with penalties waived, although tax attributable to the amounts distributed is still due. The exclusion covers both Traditional and Roth IRAs (effectively without income limits on contributors), encompasses grandchildren as beneficiaries, and extends qualified expenses beyond tuition and required fees to room and board (for students attending college at least half time), books, and supplies.

As noted above, tax deferral on income saved for college expenses has been available since 1996 through Qualified Tuition Programs, also called section 529 plans. Individuals at all income levels may contribute to a section 529 account or prepaid tuition plan. Contributors may use up to five years of annual gift tax exclusion amounts in advance for a gift-tax-free contribution to a student in a single year (for a total of $60,000 in 2008). There is no limit on the number of permissible student donees per year. Some states permit contributors to deduct a limited amount of contributions for state income tax purposes. Not only does income accumulate tax-free in a section 529 account, but distributions from the account, which include a return of contributions and earnings on those contributions, are also excluded from gross income as long as they are used for qualified higher education expenses.

In 1997, an additional deferral vehicle was created in the form of an Education IRA. Subject to an AGI phase-out, contributors were allowed to contribute in the aggregate up to $500 per year to an Education IRA. As noted above, EGTRRA increased contribution limits to Education IRAs, now named Coverdell Education Savings Accounts, to $2,000. Not only does income accumulate tax-free in a Coverdell account, but distributions from the account, which include a return of contributions and earnings on those contributions, are also excluded from gross income as long as they are used for qualified education expenses, including college expenses.

Since 1988, there also has been a college saving incentive in the form of an exclusion of interest on qualified United States Savings Bonds, provided that the proceeds are used to pay for qualified higher education expenses, subject to an AGI phase-out.

Complexity of Tax Incentives

As reflected in the overview above, the education tax incentives under current law are numerous, often overlapping, and complex. The incentives vary in terms of who may receive benefits, which expenses may be covered, and how large an exclusion, deduction, or credit may be allowed. For example, part-time students may be eligible for the education credits (at least half-time in the case of the Hope Credit) and savings bond interest exclusion. Only full-time students may qualify for the dependent deduction or EITC. Some provisions, like the Hope Credit, are calculated per student, but others, like the Lifetime Learning Credit and the student loan interest deduction, are calculated per taxpayer. Different expenses qualify under different provisions. For example, books, supplies and equipment are qualified expenses for many savings provisions but not for purposes of the credits. Finally, phase-outs with different thresholds apply for purposes of the credits, dependent deduction, student loan interest deduction, Coverdell account contribution, and savings bond interest exclusion.

Consider the following examples and their disparate results. The examples show the value of education benefits available under 2007 law to typical families facing a wide range of circumstances regarding their education expenses.[1] In each example, we calculate the tax benefits that typical families would receive from five tax provisions that may help families with education expenses as in effect for 2007: (a) the Hope Credit, (b) the Lifetime Learning Credit, (c) the tuition deduction (expired December 31, 2007), (d) the dependent exemption, and (e) the EITC. Savings incentives, such as Coverdell accounts and section 529 accounts are not considered.

Because the provisions interact, and because only the EITC is refundable, some families may not have sufficient tax liability to benefit fully from all provisions for which they are eligible. The examples show that total tax benefits vary with the family's specific circumstances: family income, filing status, age of the student, dependent status of the student, whether the student attends part-time, year of study, and their expenses. The families in the examples presented are otherwise typical of families with similar incomes. Of course, the results may vary as the facts vary from the typical family model.

Taxpayers may often be eligible for more than one benefit and only some benefits may be used together. Thus, in many instances, the family must choose among the various benefits. The first example shows the optimal choice may not be obvious before computing the family's taxes.

Example 1: A Family May Need to Make Many Calculations to Determine the Best Outcome

A family of three (Family A) has an income of $100,000. Their 19-year-old son is a full-time freshman at the local state university. His tuition and fees for the year are $6,000. The family knows that they are eligible for the Hope Credit, the Lifetime Learning Credit, the tuition deduction, and the dependent exemption that the family would not be eligible for if the son were not a full-time student. The family may use no more than one of the following three benefits: the Hope Credit, the Lifetime Learning Credit, or the tuition deduction. The family is in the phase-out range for the education credits.

- Family A could receive $2,005 – from the Hope Credit ($1,555) and the dependent exemption ($850).
- Family A could receive $1,690 – from the Lifetime Learning Credit ($840) and the dependent exemption ($850).
- Family A could receive $1,850 – from the tuition deduction ($1,000) and the dependent exemption ($850).

Note that if this family had additional children with education expenses, the calculation exercise would be even more complicated. For example, the Lifetime Learning Credit provides a maximum of $2,000 per family and thus, may be limited for families whose total tuition expenses exceed $10,000.

The remaining examples calculate the optimal education benefit for a series of taxpayers with different incomes, filing status, and education needs to demonstrate the potential range of results.

Example 2: Individual in Part-time Training Programs – Income Affects Tax Benefits

A single taxpayer attends a training program that costs $1,000. He attends less than half-time, is not in a degree program, and is not in his first two years of post-secondary study.

- If Taxpayer B earns $25,000, B could receive a Lifetime Learning Credit of $200 (the tuition deduction would be worth $150).
- If Taxpayer B earns $50,000, B could receive a tuition deduction worth $250 (the Lifetime Learning Credit would be worth only $140 due to the phase out).

Example 3: Moderate Income Students Working Toward an Associate's Degree – Family Structure Affects Tax Benefits

A student begins work on an associate's degree at the local community college. The student's family has income of $25,000. The student attends at least half-time. Tuition and required fees are $4,000.

- C, a single student who is not dependent on his or her parents, could receive the maximum Hope Credit of $1,650.
- D, a married student who is not a dependent, could receive a Hope Credit or a Lifetime Learning Credit for $750. (D's family does not have sufficient tax liability to benefit from the education credit fully.)
- E, the married parents of a 19-year old living at home and supported by his or her parents, could receive benefits totaling $2,387 from the Hope Credit ($410), the dependent exemption ($340), and the EITC ($1,637).

Example 4a: Students Attending the Local State University – Income Affects Tax Benefits

A college-age student enrolls full-time at the local state university where tuition and fees are $6,000. The student is in his or her first year of study.

- F, a family earning $25,000, would receive $2,387 – from the Hope Credit ($410), the dependent exemption ($340), and the EITC ($1,637).
- G, a family earning $50,000, would receive $2,160 – from the Hope Credit ($1,650) and the dependent exemption ($510).
- H, a family earning $100,000, would receive $2,005 – from the Hope Credit ($1,155) and the dependent exemption ($850).
- I, a family earning $150,000, would receive $1,350 – from the tuition deduction ($500) and the dependent exemption ($850).
- J, a family earning $200,000, would receive $952 – from the dependent exemption.

Example 4b: This example is the same as Example 4a, except that the student is enrolled in his or her third year of study. As a result, the Hope Credit would no longer be available.

- F, a family earning $25,000, would still receive $2,387 – from the Lifetime

Learning Credit ($410), the dependent exemption ($340), and the EITC ($1,637).
- G, a family earning $50,000, would receive $1,710 – from the Lifetime Learning Credit ($1,200) and the dependent exemption ($510).
- H, a family earning $100,000, would receive $1,690 – from the Lifetime Learning Credit ($840) and the dependent exemption ($850).
- I, a family earning $150,000, would still receive $1,350 – from the tuition deduction ($500) and the dependent exemption ($850).
- J, a family earning $200,000, would still receive $952 – from the dependent exemption.

Attached as Table 2 are figures that illustrate graphically the tax value of education benefits under 2007 law, taking into account the same five major tax provisions. The figures show the value of the education benefits for typical families by AGI. As in the examples above, the value of these provisions depends on a student's or family's circumstances: the cost of tuition; family income (including whether the family has any income tax liability); whether the student attends college full-time or part-time; filing status; and for the Hope Credit, whether the student is in the first two years of post-secondary education.

The tax savings for a student or family vary significantly with income and tuition level. At the tuition levels paid by most full-time students whose families are eligible for the credits, the Lifetime Learning Credit offers less assistance than the Hope Credit. The Hope Credit, however, is only available to students in their first two years of college. Thus, the tax value associated with a college freshman or sophomore is larger in many cases than the tax value associated with a college junior or senior.

In general, families with incomes under $100,000 in 2007 owing tuition expenses would have maximized their benefits by claiming an education credit; higher income families would have claimed a tuition deduction. As income rises further, the dependent deduction phases out. Families with no income tax liability receive no benefit from the dependent deduction, the tuition deduction, or education credits. However, a college student may qualify a low-income or moderate-income family for the EITC. Large families may lose the benefit of the dependent deduction because they are more likely to be subject to the alternative minimum tax.

Like the family filing a joint return, higher income individuals who file single returns would have maximized their benefits by claiming the tuition deduction, while individuals with incomes under $50,000 would have claimed a credit. A low-income independent student may be eligible for the EITC, but there is no additional education-related benefit from the EITC and thus, the EITC benefit would be the same as for other low-income individuals. Because independent students receive no benefit from the dependent deduction and no education-related benefit from the EITC, the tax value of the benefits associated with an independent student is smaller than the corresponding tax value for a dependent student.

As illustrated in the examples above and the figures in Table 2, the value of various tax incentives attributable to a student may range from a few hundred to a few thousand dollars depending on filing status and AGI. In addition, a claim of one credit or deduction may adversely affect a taxpayer's eligibility for another credit or deduction. From this variety of incentives, a student or parent must discern the optimal combination of tax benefits, which may require many taxpayers to generate alternative complex computations. As in Example 1 above, taxpayers with dependent students who are eligible for a tuition deduction as well as a Hope or Lifetime Learning Credit must run multiple calculations to determine their maximum benefits. Because a qualified expense may not be eligible for more than one benefit, careful recordkeeping is required to ensure both the optimal distribution of expenses and compliance.

Because of the complexity, it may be difficult for a student or parent to determine the value of the tax incentives. In addition, for incentives based on AGI, their value is necessarily retrospective unless the student or parents can predict their income with precision. The more difficult it is to predict the value of the tax benefit accurately, the less effective these benefits are as incentives for the pursuit of a college education.

In addition to the challenges that students face in navigating the myriad education tax incentives to optimize their use, the complexity of these provisions increases the record-keeping and reporting burden on taxpayers, while making it difficult for the IRS to monitor compliance. For example, to claim an education credit, a taxpayer must file a Form 1040 even if he or she otherwise qualifies to file a Form 1040EZ, and the taxpayer must file an IRS Form 8863, a 17-line form with two pages of instructions.

Observations on Simplification

Despite the complexity, because the tax incentives may provide significant value to a family or individual in pursuit of higher education, it appears the various incentives are widely utilized. Table 3 sets forth statistics on the use of the education credits and the tuition deduction based on the most recent IRS data available (for tax year 2005). In the fall of 2005, more than 17 million students were enrolled in college in the United States. As noted in Table 3, a substantial number of these students claimed some combination of the deduction and credits. Overall, in 2005, more than 11.6 million taxpayers claimed an education credit or tuition deduction. Our data cannot capture whether students and families are utilizing the tax incentives optimally, nor what impact, if any, the tax incentives have on decision-making regarding post-secondary education. However, one would anticipate that the complexity would detrimentally affect the efficient utilization and administration of the benefits.

Because the value of a particular tax incentive may not become apparent until the end of the tax year, which may be months after the tuition or other expense was due, and the tax year does not coincide with the academic year, the tax system is not well suited to provide assistance on the "front end" of funding higher education. Generally, tax benefits become available only after year-end (especially in the case of benefits limited by AGI, which is determined at year-end). As a result, the complexity of the current provisions makes it difficult for even a very sophisticated taxpayer to adjust withholding to "advance" the benefit.

In addition, it is important to remember that recent high school graduates do not constitute the only type of person interested in pursuing a college education. Prospective students also include older persons who entered the job market after high school as well as those who have an interest in pursuing an advanced degree or a career different from the one in which they were originally engaged. The provision of different tax incentives for similar higher education expenses may result in the unequal tax treatment of similarly situated taxpayers.

Suggestions have been offered regarding potential simplifications, primarily along three themes. First, it has been suggested that uniform definitions for operative terms such as "qualified higher education expenses" or "qualified tuition and related expenses" and "eligible education institution" be adopted. For example, currently only tuition may qualify for tuition reduction for college employees and gift tax exclusions; tuition and required fees may qualify for the Hope and Lifetime Learning Credits, tuition deduction, and savings bond interest exclusion; tuition, fees, books, supplies, and equipment may qualify for the scholarship exclusion, employer EAP, and student loan interest deduction; and tuition, fees, books, supplies, equipment (and in the case of a student attending at least half time, room and board) may qualify for penalty-free distributions from IRAs, section 529 accounts, and Coverdell accounts.

A second suggestion has been to conform the phase-out thresholds and ranges and index all amounts for inflation. As noted above, different income thresholds apply to the education credits, dependent deduction, student loan interest deduction, and the different savings provisions.

Third, it has been suggested that the education credits be consolidated along with certain deductions. In particular, the AGI phase-out for the credits could be increased to eliminate the need for the tuition deduction; or a single credit could be designed to cover the same population.

While there is clearly a need to address the complexity concerns arising from the current welter of tax incentives, it is important to remain cognizant that revisions to the tax regime may lead to unintended consequences, and any revision may unsettle taxpayer expectations. Recognizing budgetary constraints, legislative reform of tax incentives will almost invariably result in additional benefits for certain taxpayers and fewer benefits for others. Because of the varying profiles of those who seek the benefits of tax incentives for higher education, it may be challenging to streamline the incentives in a way that would benefit the entire target group. Legislative reform of tax incentives would also need to address transition issues for those students or families who may be planning to rely on relevant provisions under current law.

In contemplating legislative reform of current tax incentives, a good starting point would be to focus on clear, simple ways to help students and their families meet the cost of higher education. While efforts can be made to consolidate and streamline the education tax incentives, to be successful, those efforts should not overlook the non-tax benefits that are available to many students, especially those in low-income and middle-income families, either from Department of Education and other federal and state governmental programs or from private-sector sources.

Thank you Mr. Chairman, Ranking Member English, and distinguished Members of the Subcommittee for the opportunity to participate in today's hearing on this important subject. I would be pleased to respond to your questions.

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[1] The families in these examples have average levels of deductible expenses and no capital gains income. For families eligible for the EITC, all income is from wages.

REPORTS

- Table 1 - Summary of Tax Provisions Related to Higher Education
- Table 2 - The Tax Value of a Student under 2007 Law
- Table 3 - Use of Tax Incentives for Higher Education

Table 1. Summary of Tax Provisions Related to Higher Education

	Provision	Tax Benefit	Qualifying Expenses	Eligible Individuals	Maximum Annual Amount	Income Limits	Eligible Institution
1	**Hope Scholarship Credit (§ 25A)**	Per student credit against tax	Tuition and required fees	Taxpayer, spouse or dependent in 1st or 2nd year of higher education enrolled at least half-time	$1,800: 100% of the first $1,200 and 50% of the next $1,200 (indexed for inflation)	Phase-out begins at $48,000 ($96,000 if joint return) and is pro rata over $10,000 ($20,000 if joint return) (indexed for inflation)	Post-secondary school eligible for Federal student aid
2	**Lifetime Learning Credit (§ 25A)**	Per taxpayer credit against tax	Tuition and required fees	Taxpayer, spouse or dependent in post-secondary or professional education	$2,000: 20% of the 1st $10,000 total across all eligible students in household (not indexed for inflation)	Phase-out begins at $48,000 ($96,000 if joint return) and is pro rata over $10,000 ($20,000 if joint return) (indexed for inflation)	Post-secondary school eligible for Federal student aid
3	**Earned Income Tax Credit for dependent children aged 19 through 23 (§ 32)**	Refundable credit for families with dependent children aged 19 through 23	N/A	Dependent student enrolled full-time for at least 5 months of preceding year	$2,917 for families with a single dependent child	Phase-in complete at $8,580 Phase-out begins at $15,740 ($18,740 if joint return) Phase-out complete at $33,995 ($36,995 if joint return) (indexed for inflation)	Educational organization – any level
4	**Employer-reimbursed educational expenses paid through an accountable plan (§ 62(c))**	Exclusion from gross income	Tuition, required fees, non-academic fees, books, supplies, equipment, room and board, special needs, transportation and travel	Employee	None	None	Educational organization – any level

	Provision	Tax Benefit	Qualifying Expenses	Eligible Individuals	Maximum Annual Amount	Income Limits	Eligible Institution
5	**Traditional and Roth IRAs (§ 72(t)(7))**	Exception from 10% additional tax on early distributions	Tuition, required fees, non-academic fees, books, supplies, equipment, room and board, special needs	Taxpayer, spouse, child or grandchild (enrolled at least half-time for room and board)	None	None	Post-secondary school eligible for Federal student aid
6	**Cancellation of debt (§ 108(f))**	Exclusion from gross income for income from cancellation of certain student loans	N/A	Borrower who works for a certain period of time in certain professions for any of a broad class of employers	None	None	Educational organization – any level
7	**Scholarships and fellowships (§ 117)**	Exclusion from gross income	Tuition, required fees, non-academic fees, books, supplies, equipment	Degree candidate	None	None	Educational organization – any level
8	**Tuition reduction (§ 117(d))**	Exclusion from gross income	Tuition	Employee of college, spouse or dependent; graduate student employed in teaching or research	None	None	Educational organization – college or graduate school
9	**Employer provided education assistance program (EAP) (§ 127)**	Exclusion from gross income	Tuition, required fees, non-academic fees, books, supplies, equipment and special needs	Employee receiving higher education	$5,250 (not indexed for inflation)	Limits on share of benefit that can go to the highly compensated; no individual income limits	Educational organization – any level

	Provision	Tax Benefit	Qualifying Expenses	Eligible Individuals	Maximum Annual Amount	Income Limits	Eligible Institution
10	**Savings bond interest (§ 135)**	Exclusion from gross income for U.S. savings bond interest	Tuition and required fees	Taxpayer, spouse, or dependent	None	Phase-out $50 per $1000, from $67,100-$82,100 ($100,650-$130,650 if joint return) (indexed for inflation)	Post-secondary school eligible for Federal student aid
11	**Dependent children aged 19 through 23 (§ 152(c)(3))**	Personal exemption deduction for dependent children aged 19 through 23	N/A	Student enrolled full-time for at least 5 months of preceding year	3500 (indexed)	Phase-out begins at $159,950 ($239,950 if joint return) (indexed for inflation)	Educational organization – any level
12	**Business expense deduction (§ 162)**	Itemized deduction	Most business or work related education expenses including transportation and childcare	Taxpayer or spouse	None	Overall limitation on itemized deductions may apply to AGI over $159,950 (indexed for inflation)	Educational organization – any level
13	**Student loan interest (§ 221)**	Above-the-line deduction	Tuition, required fees, non-academic fees, books, supplies, equipment, room and board	Taxpayer paying interest on a qualified education loan incurred on behalf of self, spouse, or dependent	$2,500	Phase-out over $55,000-$70,000 ($115,000-$145,000 if joint return) (indexed for inflation)	Post-secondary school eligible for Federal student aid
14	**Education expenses (§ 222) (effective through 2007)**	Above-the-line deduction	Tuition and required fees	Taxpayer, spouse or dependent receiving higher education	$4,000 or $2,000 subject to income limits	Deduction limited to $4,000 if AGI is less than $65,000 ($130,000 if joint return); and to $2,000 if AGI is less than $80,000 ($160,000 if joint return)	Post-secondary school eligible for Federal student aid

	Provision	Tax Benefit	Qualifying Expenses	Eligible Individuals	Maximum Annual Amount	Income Limits	Eligible Institution
15	**Qualified Tuition Plan (QTP) (§ 529)**	Exclusion from gross income for distributions from QTP accounts	Tuition, required fees, non-academic fees, books, supplies, equipment, room and board, and special needs	Any post-secondary student (enrolled at least half-time for room and board)	None	None	Post-secondary school eligible for Federal student aid
16	**Coverdell Education Savings Account (§ 530)**	Exclusion from gross income for distributions	Tuition, required fees, non-academic fees, books, supplies, equipment, room and board, and special needs	Any student, including primary and secondary (enrolled at least half-time for room and board)	Contributions limited to $2,000 per year, per recipient	Phase-out of eligibility for contributions from $95,000-$110,000 ($190,000-$220,000 if joint return)	Post-secondary school eligible for Federal student aid, or secondary or primary school
17	**Gift tax exclusion (§ 2503(e))**	Exclusion for tuition paid directly to educational institution	Tuition	Any student	None	None	Educational organization – any level

Table 2. The Tax Value of a Student under 2007 Law

Figures A through C below illustrate the combined value of five major income tax provisions effective in 2007 – the Hope Credit, the Lifetime Learning Credit, the tuition deduction, the dependent exemption, and the Earned Income Tax Credit (EITC) – to families with different levels of income and different education expenses. Families are otherwise typical of families with similar incomes.[1] The tax value of a student is the difference between the taxpayer's income tax liability and what it would have been if the student had not enrolled in school. The no tuition case corresponds to a full scholarship and reflects the value of the tax benefits of the dependent exemption and the EITC.

Figure A. Tax Value of a Full-Time College Freshman or Sophomore under 2007 Law (Joint Filers)

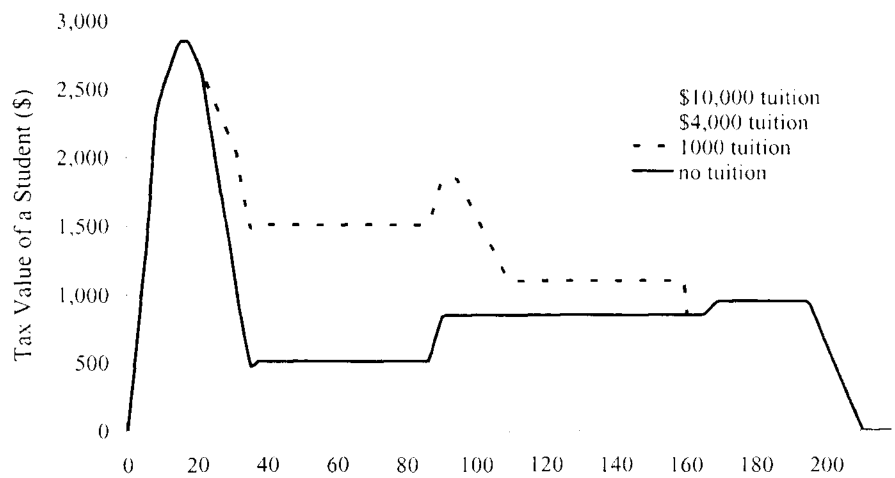
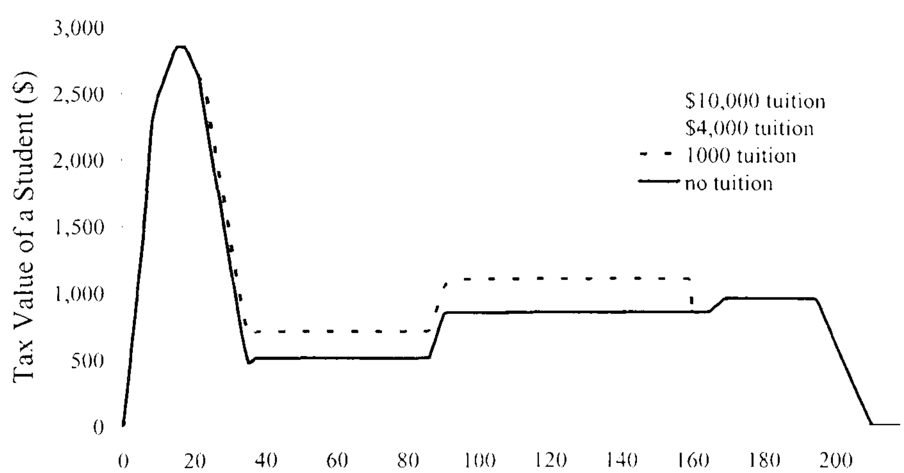


Figure B: Tax Value of a Full-Time College Junior or Senior under 2007 Law (Joint Filers)



[1] The families have average levels of deductible expenses and all income is from wages.

Figure C: Tax Value of an Independent Student Eligible for the Hope Credit under 2007 Law (Single Filers)

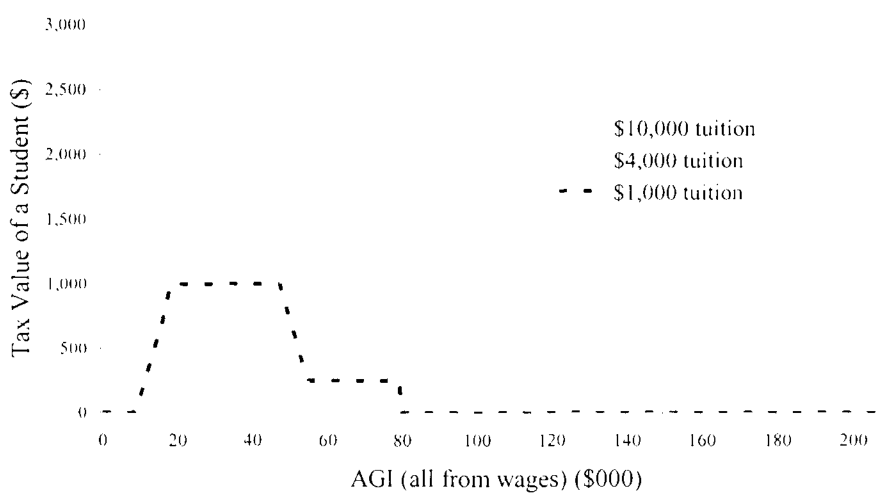


Figure D presents the same information as Figure A, but excludes the benefits of the tuition deduction, which expired on December 31, 2007.

Figure D. Tax Value of a Full-Time College Freshman or Sophomore from Education Credits, Dependent Exemption and EITC (2007 Law, Joint Filers)

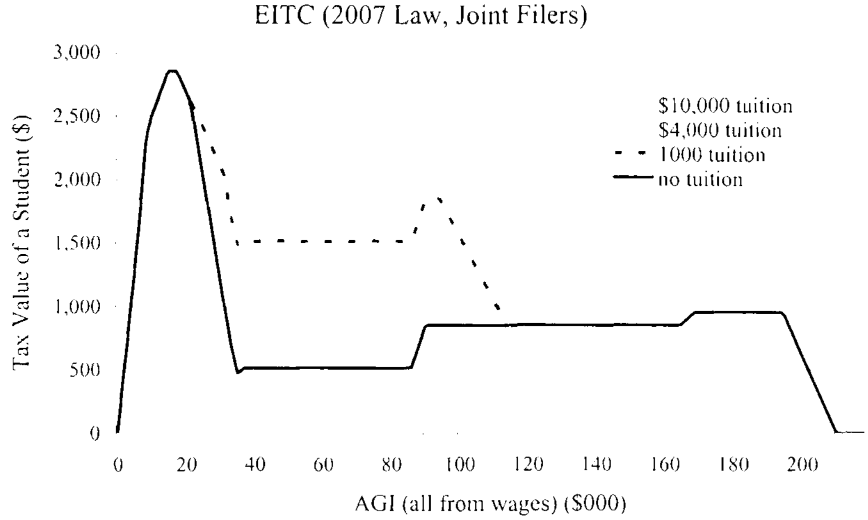


Table 3
Use of Tax Incentives for Higher Education - Tax Year 2005 SOI Data

Education Incentive Claimed		Returns (Thousands)	Dollars (Millions)	Average (Dollars)
Tuition Deduction Only[1]		4,416	10,085	2,284
Hope Credit Only[1]		2,554	2,627	1,029
Lifetime Learning Credit Only[1]		4,011	2,783	694
Any Combination of Above		482	[2]	[2]
	Total	*11,463*		

Department of the Treasury
Office of Tax Analysis

May 1, 2008

Notes:

[1] A Hope or Lifetime Learning Credit amount is used to offset individual income tax liability on a dollar-for-dollar basis. In contrast, the tuition deduction is subtracted from the income upon which tax is calculated. Therefore, the value of the deduction to the taxpayer depends on that taxpayer's effective tax rate.

[2] The 482,000 returns that claim more than one type of incentive claim a total of $762 million in tuition deductions and $707 million in education credits.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

April 29, 2008
HP-956

Remarks by Assistant Secretary Clay Lowery on Promoting Economic Growth and Investment Through Free Trade Before the Charlotte Economics Club

Washington, DC-- Thank you for inviting me here today to speak about the importance of promoting open investment and free trade. The implications of world trade policies are in the headlines everyday. The benefits of trade are being questioned, the free trade agreement (FTA) for Colombia has been held up by Congress, and finalizing the Doha round has become more complicated as high food prices are exacerbated by export controls. With such varied news coverage of trade, it is easy to lose track of the big picture - free trade will lead to growth for the U.S. and world economy.

In simplistic terms, trade is contentious because trade is not just about the big picture. Trade policy affects the everyday lives of people from the cost of food to how they earn a living. As a result, I do not want to talk to you just as a policymaker with facts, but as a realist, about how trade improves the every day lives of Americans. And the first realistic thing to say is that we need to understand what free trade can and cannot do, and trade promotion must also be accompanied with targeted assistance to help displaced workers find training and new employment.

In this speech, I will begin by talking about the topic of trade and investment in general and what it means for the United States. Then I will look more closely at the benefits of our trade promotion agreements, and then closer still at financial services because of the importance of that sector to North Carolina. Lastly, I will talk about programs to help with the adjustment that comes with freer trade. Because we must face the fact, as my boss, Secretary Paulson says, that the global economy is here to stay.

Benefits of Trade – Exports and Investment

My former boss, former Treasury Secretary Larry Summers, wrote yesterday that it is very difficult to sell the benefits of trade, which is one reason free trade agreements are not more politically popular with the American public. Since I am at the Charlotte Economics Club, however, let me try to discuss trade in the context of how economists and businessmen look at it and then in a way that I hope all North Carolinians see it.

It is easy to understand that free trade is the best way to maximize economic growth, as the market for goods is no longer limited to a country's borders but expands across the globe, creating opportunity. Expanding markets through trade also promotes investment that fuels economic dynamism and innovation, as well as deployment of new technologies that raise productivity, and ultimately our standard of living.

Benefits to North Carolina

What I just said has historically been the view of most economists, though as Secretary Paulson observed – he was surprised that it was with economists that he was having to argue the benefits of free trade more and more. My view is that we should look at the evidence and why not start here in North Carolina. Between 2001 and 2006, North Carolina's exports to the world grew by 30 percent.

I guess one should ask, "what does that mean for the economy and workers here in North Carolina?" My answer would be to point out that that in 1992, trade supported just over 8 percent of jobs in North Carolina. Today, it is nearly 18 percent. Over the last 15 years, trade supported over 60 percent of North Carolina's job growth and is responsible for more than 600,000 new jobs created in the last decade.

Trade Agreements

Not surprisingly, the primary method for the federal government to assist businesses, workers, and farmers to take advantage of greater trade is to negotiate trade agreements. That is what we have done under President Bush's leadership – negotiating ten new Free Trade Agreements (FTAs) with 15 countries – and our exports to these partners are growing twice as fast as our exports to the rest of the world. And our exports to the whole world are at an all time high, representing 12 percent of GDP, and were responsible for more than a third of U.S. economic growth in 2007.

Exports are a key component of the economic equation, but trade agreements are not solely export focused. They also help spur investment because they set transparent ground rules, give foreign investors rights to establish a local commercial presence, do business, and repatriate earnings, and – let's be frank – establish more of a rule of law in which arbitrary regulation and political risk is diminished. In the United States, we sometimes take these rights for granted as we are a very attractive investment destination, but we need to secure the same rights for American companies investing overseas.

For the United States, attracting international investment fuels our own economic prosperity by bringing new technology and business methods, and providing healthy competition that fosters innovation, productivity gains, lower prices, and greater variety for consumers. Of course, competition and investment can also have negative repercussions in certain industries, as American companies face competition from overseas firms with lower costs of doing business. In the aggregate, however, foreign investment brings jobs. Over 5 million Americans are employed by foreign-owned companies, a third of these jobs are in manufacturing, and foreign-owned companies pay on average 25 percent more than U.S. companies.

Finally, FTAs represent more than just good economic policy. Their strategic importance is enormous. Countries with which the United States has or is pursuing an FTA – Colombia, Panama, and Korea – have demonstrated a commitment to continued U.S. economic engagement, political support, and leadership in this Hemisphere and in Asia. It is very difficult to deny that failure to approve these agreements sends the wrong signal to our friends in Latin America and Korea.

Now, I'm willing to believe that I may not have convinced all of you of the merits and benefits of free trade. Nevertheless, even the most ardent opponent of free trade should agree these FTAs are good for Americans. The fact is we have very low tariffs in the United States, and in many cases give duty-free treatment to other countries – like the Central American countries covered by CAFTA, Colombia, and Peru. First and foremost, a FTA makes these partners cut their tariffs on American goods.

Perhaps the most contentious FTA is the agreement with Colombia, which has met resistance on the Hill despite its clear economic and political benefits to the United States. First, the FTA demonstrates support for Colombia's democratically-elected government, which has made significant progress in combating violence and instability in the face of a long-standing rebel insurgence. Second, the agreement will remove barriers to U.S. services and provide a secure and predictable legal framework for investors. Just as importantly, more than 9,000 U.S. companies export to Colombia, most of which are small and medium-sized firms, and 80 percent of U.S. exports would immediately receive duty-free status.

As one of my colleagues puts it, we already have free trade with Colombia – it just so happens to be one-way free trade. Over 90 percent of goods from Colombia comes into the U.S. duty free. The purpose of this agreement is to make that a "two-way" free trade street, so American goods made by American workers enter Colombia duty free.

I would like to return again to North Carolina to think through free trade agreements. In the first four years (2004-2007) of the U.S.-Chile FTA, North Carolina's exports to Chile increased by 79 percent. Since the North American Free Trade Agreement's (NAFTA) entry into force in 1994, North Carolina's exports to Canada and Mexico have grown by 150 percent. I have no doubt that the state, which exported $181 million worth of exports in 2007 to Colombia, not to mention almost $550 million in goods to Korea, will equally benefit from free trade agreements which will reduce tariffs on agricultural products and the states' burgeoning chemical manufacturing industry.

Financial Services Industry needs Free Trade

Of course, I cannot come to Charlotte without talking about financial services and trade. Over a quarter of North Carolina's economic growth of 4.2 percent in 2006 was attributable to the financial services industry. In the United States, when one thinks of the financial services industry, one thinks of New York and Charlotte, North Carolina. As the second largest financial city in the United States, Charlotte stands to gain from trade deals that promote services. I can tell you that since Treasury is responsible for the financial services negotiations, we are fighting hard for a good deal in the Doha round – and we have already fought hard in the current FTAs.

As the U.S. economy develops its service industry, it is critical that services are given appropriate treatment. In financial services alone, employment has increased by about a million jobs, or approximately 20 percent, over the last 10 years.

In an increasingly globalized world, FTAs help keep the United States at the cutting edge in financial services as trade opens up new opportunities and spurs innovation in the provision of cross-border services. With respect to cross-border trade, the FTAs ensure that nationals and residents of our partners can purchase financial services cross-border from providers in North Carolina, including portfolio management services to fund managers.

When speaking about trade, there is often little attention on the industries where the United States stands to gain the most, and financial services is one of them. The United States is a world leader in finance and approving the remaining FTAs will only help continue our competitive advantage.

Trade Adjustment Assistance

While trade improves the health of our economy, generating income and opportunities for advancement, the transformation of an economy from one industry to another creates dislocations and anxieties that need to be addressed. Unfortunately, for many workers trade agreements have meant that they need to find new jobs in new industries. For the benefits of trade to be maximized, there needs to be a commitment to ensuring trade works for all Americans, not just those who live in the regions with the next hot industry.

This of course is not easy to do, and making it work depends on the ingenuity and entrepreneurship of the American people. For example, Charlotte did not become a banking town overnight, but the city's leadership, through a combination of measures, saw that there was room for competition and attracted banks by reducing their cost of doing business. It is this kind of strategic thinking that can help mitigate the impact of our increasingly international economy.

Success also depends on support from the government, and the Administration is supporting this through the Trade Adjustment Assistance program. This program helps workers who lose jobs due to increased foreign competition or relocation of work abroad. The program isn't perfect and it could do a better job providing the right incentives. But it is a way to channel resources to people in order to re-train and re-tool for dislocated workers and families.

The Administration supports a reauthorization and reform of trade adjustment assistance so we can help displaced workers learn new skills and find new jobs. But the current design of the program makes it harder for participants to take new jobs for a number of reasons. The income support lasts longer than regular unemployment insurance, but, in order to receive training assistance a worker must remain unemployed. Administrative costs are high, accounting for about 15 percent of total costs. More of the programs benefits should go directly to worker training. Legislation should focus training benefits on workers in industries affected by technological change or international competition, and low-income and unemployed workers without resources to finance their own training, even at relatively low-cost community colleges.

Conclusion

Let me repeat the single most important fact from this speech: the global economy is here to stay. It is up to us to find a way forward that helps all of us prosper, and to avoid making a scapegoat out of trade or to demagogue the issue. Economic isolationism that would potentially cut the United States off from exporting goods and services would mean fewer jobs, lower incomes, and a lower standard of living. Were we to take the protectionist road, we would find ourselves alone while all the other major world economies continue to grow.

I will close by reaffirming the Administration's commitment to the trade agenda because it is what is best for the United States, and it is what is best for the economic prospects of North Carolina. The benefits of these agreements to exports and investment, including our services industry are high and we collectively need to become more vocal to ensure their realization. As I see more and more protectionism in the news I am worried that we are about to lose an historic opportunity to reap the economic and political benefits of trade through the passage of the remaining trade promotion agreements. This Administration is dedicated to pursuing that course while also enhancing adjustment services and assistance to help build a workforce for the 21st century.

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PRESS ROOM

May 1, 2008
HP-957

Paulson Meets with French Delegation

Washington - Treasury Secretary Henry M. Paulson, Jr. will welcome French Prime Minister Francois Fillon, Minister of Economy, Industry and Employment Christine Lagarde, and Minister of Agriculture Michel Barnier to the U.S. Treasury Department on Friday, May 2, 2008. This meeting continues Treasury's regular engagement with France on a range of issues, including global and regional economic and financial developments and efforts to combat money laundering and terrorist finance.

May 1, 2008
HP-958

Assistant secretary of the U.S. Treasury Anthony Ryan
Remarks at SIFMA "Wall Street to Washington" Conference

Washington - Good afternoon. Thank you for inviting me to join you today. It's a pleasure to be here.

The title of this conference is Wall Street to Washington. It sounds like a one way trip, but I imagine that most of you are only visiting our nation's capital, and plan on returning to New York later this evening. Your trip reflects that it is a two way street, and recognizes that the relationship must be as well. The reality is, not only does Wall Street go to Washington, but as we have also witnessed in recent weeks, Washington goes to Wall Street.

This two-way relationship goes back to the founding of our Republic. In fact, our first Secretary of the Treasury, Alexander Hamilton brought Wall Street ideas to Washington. These ideas continue to affect how we finance the Federal government's operations to this day.

The relationship between Wall Street and Washington is critically important because it influences what ultimately is experienced on Main Street. Our policies and regulations, coupled with how efficiently and effectively capital is created and transmitted, affects every American. This is true for citizens who seek to borrow money to purchase a car, parents looking to finance their children's education, married couples looking to buy their first home, and entrepreneurs hoping to secure a small business loan. It is equally true for providers of capital, whether they are individuals investing their savings, or a pension official overseeing a retirement plan.

How should we define this relationship? What forces affect it? What are the mechanisms for change? Fortunately, nature provides alternative models.

One is competition. We embrace competition and the efficiency it brings to our markets. Competition is a force that is critically important in our capital markets. Competition spurs innovation. As market participants seek better ways to meet consumer and investor demands, more choices are created, and the cost of capital is reduced.

A second model is predation. While predation is the law of the jungle in nature, as civilized society, we need to have laws in place to protect investors and consumers. Market integrity is critical for a sound and robust market. Market participants must know the playing field is level and the rules are fair. There is a real benefit to the existence and enforcement of broad anti-fraud and anti-manipulation authorities. Predatory lenders, rumor mongers, market manipulators, insider traders and others who seek to gain an unfair advantage must be identified and prosecuted. It is important that regulators have broad authority to investigate and prosecute these actions. These measures instill confidence in market participants that the market is operating in a fair and transparent fashion where rules matter.

Other types of relationships also come to mind. For example, commensalism is one relationship in which one entity gains some benefit while the other is neither helped nor harmed. Another relationship that we all know is parasitism, whereby one entity gains some benefit at the expense of another.

Each of these types of relationships exists and play a role as the natural world continually evolves. The capital markets are no different. Well before the days of Hamilton, financial systems had been evolving. They will continue to evolve, and remain influenced by various types of relationships.

Successful capital markets and effective regulatory policy do not happen independently; quite the contrary. The fact is, success is inter-dependent; hence the need for the relationship to be two way. How it evolves is up to both the private and public sectors.

Evolution is not only driven simply by competition, but also by cooperation, interaction, and some level of mutual dependence. As we look forward, we must recognize how much we have to gain or lose, individually and collectively, if the relationship is not more symbiotic.

We need to ensure that our capital markets remain the most efficient in the world. I have great confidence in our markets, but private sector calls for more voluntary industry efforts will ring hollow if they are not followed with proactive and tangible actions that result in changed behavior. The objective is not to study issues, write reports, or propose protocols that sit on a shelf. We need to see constructive ideas not just developed, but implemented. We need to see changes in market practices. It is that simple.

Meaningful change often requires leadership. It is not surprising that it is difficult to ensure unanimous support for strengthening practices or that suggesting change attracts antagonism.

Make no mistake about it, change will occur, one way or the other, and there is a great deal to be said when it originates within the private sector. Policy makers will welcome such constructive developments by the private sector, but regulatory practices will have to change as well. The question, which time will ultimately answer, is what is the appropriate balance? If private sector market practices do not change, and market discipline is not significantly strengthened, legislators and regulators will certainly move to address the weaknesses in the private sector's contribution to market discipline.

So, let me highlight four areas where Washington is looking to partner with you, and where we need to work together to strengthen our capital markets.

Market Turmoil

Our first priority must be to confront the current challenges in our capital markets, and to seek to minimize the spillover effects on our real economy. A great deal of de-leveraging is occurring, which has created liquidity challenges and compromised our credit markets' ability to facilitate economic activities.

Working closely through the President's Working Group on Financial Markets (PWG), we recently completed a rigorous review of the underlying causes of the turmoil, and released a policy statement that included specific recommendations to address the underlying weaknesses that caused, facilitated, and exacerbated the challenges in our capital markets.

The PWG recommendations cover the practices of a broad array of market participants, as well as supervisors. The participants include originators of credit such as mortgage brokers, financial firms that securitize credit, rating agencies, and investors.

At the Treasury Department, we look forward to seeing the recommendations implemented. Everybody has a role to play, and efforts must be made to strengthen practices in:

Transparency and disclosure. The effect of many of the weaknesses in the market and the resulting challenges in addressing them were exacerbated by complexity and opacity. The best antidote to opacity is transparency and better and more useful disclosure.

2. Risk awareness. Regulators and all market participants must be more aware of, and better able to respond, to risks. Credit rating agency practices must improve, and the users of their services must rely less on, and appreciate more, the limitations of ratings products.

3. Risk management. We need improved risk management practices by investors

and financial institutions, and continued review and guidance from regulators. Risk management is everyone's business.

4. Capital management. Well-capitalized institutions are better prepared to deal with challenges, foster economic growth and enhance market confidence.

As Chairman Bernanke recently remarked, "We do not have the luxury of waiting for markets to stabilize before we think about the future. Indeed, many of the necessary changes that have been identified, including increasing transparency, improving risk management, and attaining better coordination among regulators, could provide important support to the process of normalizing our financial markets."

Hedge Funds

Another area in which the private sector must continue to move forward is hedge funds. Over a year ago, the PWG released principles and guidelines regarding private pools of capital. While private pools of capital bring many advantages to our capital markets, they also pose challenges, including systemic risk and investor protection. We must rely on a combination of strong market discipline and regulatory policies to address these risks.

In September 2007, the PWG tasked two private-sector committees, comprised of well-known and well-respected asset managers and investors, to develop best practices for their respective groups. Their reports were released for public comment two weeks ago, and after a period of public comment, the groups will release final reports this summer.

The "Best Practices for Asset Managers" calls on hedge funds to adopt comprehensive best practices in all aspects of their business, including the critical areas of disclosure, valuation of assets, risk management, business operations, compliance and conflicts of interest. They recommend innovative and far-reaching practices that exceed existing industry standards, and called for increased accountability for hedge fund managers.

The "Best Practices for Investors" includes both a Fiduciary's Guide and an Investor's Guide. The Fiduciary's Guide provides recommendations to individuals charged with evaluating the appropriateness of hedge funds as a component of an investment portfolio. The Investor's Guide provides recommendations to those charged with executing and administering a hedge fund program once a hedge fund has been added to an investment portfolio. Their best practices offer a guide for responsible investment in hedge funds. In the months ahead, we believe that it is critical to see these implemented.

There is also need to move forward on a longer term, strategic basis. Treasury recently released a Blueprint for Financial Regulatory Reform. Our current regulatory structure is not optimally positioned to address the modern financial system with its diversity of market participants, innovation, complexity of financial instruments, convergence of financial intermediaries and trading platforms, and global integration and interconnectedness.

We suggested in the Blueprint a new framework, one that includes a market stability regulator with broad powers focusing on the overall financial system. The market stability regulator would have the ability to evaluate the capital, liquidity, and margin practices across the entire financial system and their potential impact on overall financial stability.

To do this effectively, the market stability regulator would collect information from commercial banks, investment banks, insurance companies, hedge funds, and commodity pool operators. Rather than focus on the health of a particular organization, the market stability regulator would focus on whether a firm's or industry's practices threaten overall financial stability. It would have broad powers and the necessary corrective authorities to deal with deficiencies that pose threats to our financial stability.

Our ambition is to frame the debate and put forth a model that can guide all stakeholders as we seek to modernize our financial regulatory structure.

Market Infrastructure

A third area where we need to see further progress by the private sector is market infrastructure. It includes market-making capacity and systems for processing, settling, and clearing financial transactions. Comprehensive and dependable market infrastructure inspires investor confidence and plays an important role in the integrity of our marketplace. Market infrastructure is critical as it ultimately affects the ability to transfer risk and facilitate liquidity. For this reason, the financial industry must continue its efforts to enhance its strong system of clearance and settlement, including secure custodial arrangements.

Over the past ten months, despite dislocations in our financial markets, our market infrastructure has proven quite resilient. Payments were made, transaction processing continued, and exchanges handled massive surges in volume across the globe.

While these signs are encouraging, we constantly must seek to improve our position and ensure business continuity. Over the past decade there has been a tremendous expansion in the scale, diversity, and impact of over-the-counter (OTC) derivatives, which have become important vehicles for hedging and transferring risk. But as with most financial products, infrastructure development has lagged innovation. Market volume and instrument complexity call for a clear, functional, well-designed infrastructure that can meet the needs of the OTC derivatives markets in the years ahead.

Asset managers, investors, counterparties, and creditors must promptly set ambitious standards for trade data submission and resolution; promptly amend standard credit derivative trade documentation to incorporate the cash settlement protocol; and develop a longer-term plan for an integrated operational infrastructure supporting OTC derivatives. The industry needs to take further steps to limit the domino effect of lagging and uncertain post-trade processes in the event of a counterparty default or failure.

We need to remain focused and complete the work already underway. The Federal Reserve Bank of New York (FRBNY) and an industry group (the "Operations Management Group" or OMG) have been working collaboratively to address the OTC processing and infrastructure issues. ISDA has developed a cash settlement protocol and is exploring incorporating the auction mechanism into its documentation. The private-sector committee on risk management recommended by the PWG statement will look at strengthening the operational infrastructure of financial markets, including settlement protocols, close-outs in defaults, and processing of OTC derivatives. On all of these issues, the industry has an opportunity to improve market practices, and must do so.

U.S. Treasury Market

The final area that I will highlight this afternoon concerns an issue that is core to the mission of my Department – the U.S. Treasury marketplace. We value the symbiotic relationship that we have with the participants in the Treasury market. Because our operating principles of transparency and predictability are well established, buyers of Treasury securities come to us in greater numbers and bid with more confidence and in larger amounts. Our predictability, coupled with our unitary financing approach, increases the depth and liquidity of the Treasury marketplace and results in lower cost borrowing for the government.

We appreciate the principles-based framework outlined by the Treasury Markets Practices Group (TMPG). The principles and guidelines they put forth provide a strong foundation for how all stakeholders should enhance their current practices, fulfill their responsibilities, and support actions that facilitate liquidity in the U.S. Treasury market. As debt managers, we constantly encourage the implementation and evolution of these principles in our discussions with major institutional investors, reserve managers, and central banks.

When these principles were laid out almost a year ago, I remarked that success will be determined by how market participants interpret and implement these practices, and how market practices evolve from this point forward. I also pointed out that SIFMA is engaging its membership on negative repo rate trading, improved buy-in procedures, and the margining of fails.

At the February 2008 Quarterly Refunding, we discussed settlement failures in the Treasury market with our Treasury Borrowing Advisory Committee (TBAC), a committee sponsored by SIFMA and comprised of some of the finest, most experienced professionals in the financial market place. As you know, settlement failures, or fails, occur when a party selling a security fails to deliver the security to the buyer on the agreed upon settlement date. Settlement failures, occur for a variety of reasons including errors in the back office and miscommunications, and are generally small and resolved quickly.

Larger, more chronic fails can occur due to wide-scale operational disruptions or financial market conditions, such as when interest rates reach low levels.

Treasury and the TBAC discussed the potential risk of chronic fails in a lower interest rate environment, a risk that we believe impairs liquidity and threatens to raise our cost of borrowing. In addition, we asked market participants to pursue market-oriented solutions, adapt and implement practices for such a situation, and report back to us regarding their progress.

Over the past twelve weeks, we have seen rates drop quickly, the demand for Treasury securities skyrocket, and a rapid increase in fails to deliver in the Treasury market. In a short time period, we entered an interest rate regime in which the cost associated with fails declined significantly – and, perversely, weakened the financial incentive to rectify a fail. While the cost of failing to deliver may be low for a single market participant, the aggregate cost can be high when it potentially impairs the overall system, and such behavior is certainly not consistent with professional best practices.

This week, at the May 2008 Quarterly Refunding, we asked the TBAC for their view on actions taken by market participants to date. Committee members were encouraged by the collaborative efforts undertaken by the private sector industry groups to formulate viable solutions to address chronic fails, and members broadly accepted that the initiatives outlined by SIFMA and TMPG would improve market practices for fails monitoring and remediation in the near-term.

Implementation of the potential steps outlined and recommended by SIFMA and the TMPG, such as encouraging cash settlement of fails before the 30th day after the fail had occurred, "Fails Best Practices" which define such parameters as margining of fails, cash settlement procedures, and initiatives related to pair-offs and security-delivery, and the enactment of a Fails Monitoring Committee, were broadly agreed upon. The TBAC emphasized the need for industry groups to quickly execute recommended practice guidance and urged both groups to employ measures that would collectively help prevent chronic fails situations.

Treasury agrees that now is the time to act. We believe that private sector action now regarding the implementation of these mitigating initiatives is optimal, and we will continue to monitor progress closely.

Conclusion

As financial industry professionals and policy leaders, you know first hand the benefits of dynamic economic growth, and thus have a vested interest in capital markets that enhance investor confidence and market liquidity - both of which have been challenged significantly in recent months.

These are important issues, and we need to see material steps taken towards our goals. Both market and regulatory practices will evolve from here. All stakeholders, including regulators, must remain on top of these issues. We must not just define solutions, but implement them, and continually seek to strengthen both our market and regulatory practices.

By positively changing market practices, you will help strengthen market discipline, mitigate systemic risk, restore investor confidence, and facilitate stable economic growth.

The health of our capital markets reflects the collective efforts of both the public and private sectors. To reap the benefits, both sectors must share responsibility and be actively engaged. So, as you return to Wall Street, know that there is much work to do, and that each of you has an important responsibility to strengthen the vitality, stability, and integrity of our capital markets.

Thank you very much.

PRESS ROOM

May 1, 2008
HP-959

U.S., New Zealand to Negotiate Protocol to Income Tax Treaty

Washington, DC--The United States and New Zealand announced today that they plan to begin negotiation of a protocol to amend the bilateral income tax treaty, which entered into force in 1983. The first round of negotiations is expected to take place beginning June 16 in Washington, D.C.

The Treasury Department welcomes written comments from the public regarding the upcoming negotiations. Comments should be sent to John Harrington, International Tax Counsel, Room 3054 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 John.Harrington@do.treas.gov.

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May 2, 2008
hp-960

Week 1 Wrap-Up:
Treasury Sent 7.708 Million Stimulus Payments This Week

This week the Treasury Department sent out 7.708 million economic stimulus payments to American households totaling $7.091 billion.

Week One (April 28-May 2)

- Total Number of Payments: 7.708 million
- Total Amount of Payments: $7.091 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28th and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00 – 20	May 2
21 – 75	May 9
76 – 99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00 – 09	May 16
10 – 18	May 23
19 – 25	May 30
26 – 38	June 6
39 – 51	June 13
52 – 63	June 20
64 – 75	June 27
76 – 87	July 4
88 – 99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM

May 2, 2008
HP-962

Treasurer Cabral To Visit Treasury Printing Facility in San Francisco Next Week to Observe Stimulus Checks Rolling off the Presses

Washington, DC--U.S. Treasurer Anna Escobedo Cabral will tour a Treasury Department printing facility in San Francisco next Thursday to observe the first mass production printing and packaging of the 2008 stimulus checks.

The following event is open to the press:

Who
Treasurer Anna Escobedo Cabral

What
Facility Tour and Press Availability

When
Thursday, May 8, 11:00 a.m. PDT

Where
San Francisco Regional Financial Center
1650 65th St, Suite A
Emeryville, CA 94608

Note
All media should RSVP to Abbie Loftus at (510) 594-7100, or Fay Rurup (510) 594-7330 with the following information: full name, Social Security number, date of birth, position, and organization.

PRESS ROOM

May 2, 2008
HP-963

Treasury Economic Update 5.2.08

"Today's employment report indicates that the U.S. economy continues to work through substantial challenges from the housing adjustment, high energy and food prices, and financial market conditions. The Treasury Department sent out 7.7 million economic stimulus payments to American households this week, and the payments will continue through mid-July. These payments, combined with the business investment incentives also included in the stimulus package, will provide significant support to household and business spending in the middle of the year."
Assistant Secretary Phillip Swagel, May 2, 2008

Employment Fell in April:
Job Growth: Payroll employment fell by 20,000 in April, following a decrease of 81,000 in March. The United States has added 8.0 million jobs since August 2003. Employment increased in 39 states and the District of Columbia over the year ending in March. (Last updated: May 2, 2008)
Low Unemployment: The unemployment rate was 5.0 percent in April, down from 5.1 percent in March. (Last updated: May 2, 2008)

Signs of Economic Strength Include Exports and Low Inflation:
Exports: Strong global growth is boosting U.S. exports, which grew by 9.5 percent over the past 4 quarters. (Last updated: April 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 March. (Last updated: April 16, 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.

PRESS ROOM

May 5, 2008
HP-964

Statement by Assistant Secretary for International Affairs Clay Lowery before the 41st Annual Meeting of the Asian Development Bank

Madrid, Spain -- It is delightful to be here in Madrid for these meetings, and I would like to thank our gracious hosts, the Government of Spain and the City of Madrid, for their warm hospitality. We want to thank them for hosting the successful replenishment of the Asian Development Fund -- which like Real Madrid's triumph last night – needed the final minutes for a result. Let me begin on a sad note and say that our hearts go out to the victims of the cyclone that hit Burma over the weekend.

In the United States, we are going through a difficult housing correction that has impacted our capital markets. We are taking a number of aggressive measures to minimize the downturn's effect. We believe our long-run fundamentals remain sound and we have confidence that we will work through this period.

Much of the rest of the world is suffering from large increase in global food prices, and the response requires both immediate and medium-term actions. We applaud the ADB's announced intention to take both kinds of action consistent with its comparative advantage and strategic vision. Structurally and strategically, we believe the most meaningful manner in which the ADB can contribute is by strengthening agricultural productivity through building rural infrastructure and providing appropriately scaled financing initiatives for farmers and rural organizations.

Asia is the world's fastest growing region, and despite the sharp rise in commodity and food prices and the recent slowdown in the United States, the ADB is forecasting growth in Asian developing economies of 7.6 percent in 2008. As the ADB itself forecasts, by 2020 Asia and the Pacific will account for more than 25 percent of global GDP in nominal dollar terms, have 90 percent of its population living in middle income countries and have only 2 percent of the population living on less than $1 per day.

While some countries have roared ahead, however, others have lagged behind and too many are still among the world's poorest countries. They need the institutional and policy reforms that create opportunities for private sector job creation, sustained growth and improved living standards. Infrastructure gaps prevent the connections to markets and products that drive essential private-sector commerce, both within and across borders. And where incomes have grown significantly, rapid growth is putting strains on the environment and natural resources.

To address these challenges, the ADB should put its efforts into three areas: building on the replenishment, adapting to changes in middle income countries, and strengthening institutional reforms.

First, we applaud the agreement's clear focus on the Bank's comparative advantage, focusing on four key areas -- infrastructure finance, the enabling environment for private sector development, basic education, and preventing environmental degradation. On this last point, we look forward to close cooperation with ADB as the United States and other bilateral donors launch the Clean Technology Fund to help developing countries finance advanced technologies to cut greenhouse gas emissions.

Second, the ADB's role in middle-income countries has been a matter of rich debate among shareholders and we urge continued dialogue as we try to determine the optimal mode of engagement with countries that still face crucial development challenges even as they succeed and gain access to private financial markets. In some countries, this will mean shifting from financial assistance to fee-based policy guidance of the kind that the Bank is uniquely qualified to provide. Adaptation to change is a challenge, but it also presents a tremendous opportunity for the Bank to use its knowledge to help countries in new ways, and we look forward to helping the Bank stay true to its Charter.

Third, my boss Secretary Paulson likes to say that private entities that do not reform with the times go bankrupt, whereas public entities become irrelevant. At the ADB, we think a number of changes are needed to avoid being irrelevant. The ADB needs to ensure that it measures and manages for development results and its evaluation unit remains independent.

And, some have asked me why the United States cares so much about the human resources department. My answer is that the most valuable asset of the ADB is its people. The recruitment, retention, and career development of the kind of dedicated, qualified professionals needed by the Bank to fulfill its mission are central to the ADB's success. It is imperative that the management take concrete steps to professionalize human resources management. One place to start is scrapping the anachronism at many levels of the organization for a bias toward nationality as opposed to merit.

We think with efforts in these three areas – combined with the solid work in such countries as Afghanistan – the Bank will truly have a long-term strategy.

I would like to close by thanking President Kuroda and the entire bank staff for their work in preparing for our meetings here in Madrid, and my government looks forward to continuing our work with the Bank and fellow shareholders as we pursue our common vision of a region of growth and prosperity for all its citizens. Thank you very much.

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PRESS ROOM

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May 5, 2008
hp-965

Secretary Paulson Names Leadership for President's Advisory Council on Financial Literacy

Washington- Secretary Henry M. Paulson, Jr., and Charles Schwab, Chairman of the President's Advisory Council on Financial Literacy, announced the appointment of several key Council officers today as the group conducted its second public meeting.

Secretary Paulson designated Deputy Assistant Secretary for Financial Education Dan Iannicola, Jr., as Executive Director of the President's Advisory Council on Financial Literacy. On behalf of Secretary Paulson, Mr. Iannicola will manage the council's activities and support Chairman Schwab's agenda to raise the nation's level of financial literacy.

"Dan Iannicola has been a true leader in financial literacy for many years, and he will make an excellent Executive Director," said Chairman Schwab. "With Dan's appointment and our committee chairs in place, the Council is well positioned to carry out its work of making financial literacy a national priority, and ensuring that people of all ages and backgrounds have the skills to understand and manage their finances."

President Bush established the advisory council to focus on expanding Americans' access to financial services and increasing financial education for youth in school and for adults in the workplace.

In addition, Chairman Schwab selected the leaders for the committees that will set the Council's goals for the upcoming months, including:

- Ted Beck, Committee on Outreach;
- Tahira Hira, Committee on Financial Education Research;
- John Bryant, Committee on Underserved Populations;
- Janet Parker, Committee on Financial Education in the Workplace
- Laura Levine, Committee on Financial Education for Youth.

Chairman Schwab named Council member Cutler Dawson to serve as a liaison to the Financial Literacy and Education Commission, and Council member Ted Daniels to serve as alternate liaison. Established by the Fair and Accurate Credit Transactions Act of 2003, the Commission is comprised of 20 federal agencies and led by the Treasury Department.

"The 20 agencies on the Commission make a critically important contribution to the effort to raise the nation's financial literacy level," said Chairman Schwab. "The Council's new liaison to the Commission will help maintain open lines of communication between the private sector and the federal government, and ensure that the two panels are working together toward a common goal."

The President and the Secretary of the Treasury have tasked the Council with advising them on how to raise the level of financial literacy for all Americans. The Council has turned to the American public for help with that task and is soliciting public comments at

<http://www.treasury.gov/offices/domestic-finance/financial-institution/fin-education/council/032008_SolicitationofPublicComments.pdf>.

It will meet next in person on June 18 in Washington, D.C. Council meetings are open to the public.

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PRESS ROOM

May 7, 2008
HP-966

Treasury Targets FARC Money Exchange House

Washington - The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated a Colombian money exchange house for acting on behalf of and materially assisting the narcotics trafficking activities of the Revolutionary Armed Forces of Colombia, a narco-terrorist group also known as the FARC. This is OFAC's fourth action against the FARC in the past six months.

"Today's action targets the FARC's drug trafficking and terror activities by undermining its financial network," said OFAC Director Adam J. Szubin. "This deals another blow to the FARC's ability to fund its operations by laundering criminal proceeds through the international financial system."

Today's designation targets *Mercurio Internacional S.A.*, a Colombian money exchange house headquartered in Bogota, Colombia, with several branches throughout Colombia. The FARC used this Colombian money exchange house--or "*casa de cambio*" as they are commonly known in Colombia--to launder narcotics proceeds from its Eastern Bloc and, more specifically, the 27th Front. The FARC sells its illicit foreign currency to domestic money exchange businesses or *profesionales del cambio*. These *profesionales del cambio* then sell the foreign currency to *casas de cambio* that, like a bank, can export the foreign currency from Colombia.

Mercurio Internacional accepted foreign currency from the FARC via a number of *profesionales del cambio.* The FARC derived this foreign currency from drug sales. *Mercurio Internacional* would then convert the foreign currency back into pesos for the FARC to use in Colombia to fund its activities. For example, *Cambios El Trebol*, a *professional del cambio* that was designated by OFAC on April 22, 2008, is one customer of *Mercurio Internacional* that would sell the FARC's illicit foreign currency to *Mercurio Internacional* in return for Colombian pesos.

The Eastern Bloc is the strongest military faction of the FARC and uses murder, extortion, kidnapping, and drug trafficking to further the financial and political goals of the FARC. Luis Eduardo Lopez Mendez (alias "Efren Arboleda") leads the 27th Front and ultimately reports to FARC Secretariat Member Victor Julio Suarez Rojas (alias "Mono Jojoy"). Suarez Rojas is the FARC's Chief of Military Operations and formerly served as the commander of the Eastern Bloc. Victor Julio Suarez Rojas and Luis Eduardo Lopez Mendez were designated by OFAC in February 2004 and November 2007, respectively.

On May 29, 2003, President George W. Bush identified the FARC as a significant foreign narcotics trafficker pursuant to the Foreign Narcotics Kingpin Designation Act. Previously, in 2001, OFAC designated the FARC as a Specially Designated Global Terrorist pursuant to Executive Order 13224, and in 1997 the FARC was designated as a Foreign Terrorist Organization by the Secretary of State.

Today's action continues ongoing efforts under the Foreign Narcotics Kingpin Designation Act to apply financial measures against significant foreign narcotics traffickers worldwide. In addition to the 68 drug kingpins that have been designated by the President, 393 businesses and individuals 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 action freezes any assets *Mercurio Internacional* may have under U.S. jurisdiction and prohibits U.S. persons from conducting financial or commercial transactions with this entity. 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

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 April 22, 2008. HP-932
- Treasury Action against the FARC on January 15, 2008. HP-772
- Treasury Action against the FARC on November 1, 2007 HP-651
- Treasury Action against the FARC on September 28, 2006. HP-[illegible]
- Treasury Action against the FARC on February 19, 2004. JS-1171

PRESS ROOM

May 7, 2008
HP-967

Reminder: Treasury Secretary to Visit Printing Facility in Kansas City Thursday to Observe Stimulus Checks Rolling off the Presses

Washington, DC--Treasury Secretary Henry M. Paulson, Jr. will tour a Treasury Department printing facility in Kansas City Thursday to observe the first mass production printing and packaging of the 2008 stimulus checks. He will also deliver remarks on the economic stimulus payments at the Kansas City Central Library.

"By the end of June nearly 130 million stimulus payments should be in the hands of Americans, providing an immediate boost to the economy and helping to create more than 500,000 new jobs by the end of the year," said Paulson.

The following events are open to the press:

What
Facility Tour with Treasury Secretary Henry M. Paulson, Jr.
When
Thursday, May 8, 8:00 a.m. CDT
Where
Kansas City Regional Financial Center
4241 NE 34th Street
Kansas City, MO
Note
All media should RSVP to Francie Abbott at (816) 414-2151, or Lauren Ray (816) 414-2113 with the following information: full name, Social Security number and date of birth, position, and organization.

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What
Remarks by Treasury Secretary Henry M. Paulson, Jr. on Economic Stimulus
When
Thursday, May 8, 9:30 a.m. CDT
Where
Kansas City Central Library
Helzberg Auditorium
14 West 10th Street
Kansas City, MO
Note
Media will need to show ID at the door; RSVPs not necessary.

May 7, 2008
2008-5-7-15-21-43-3509

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 $73,918 million as of the end of that week, compared to $74, 541 million as of the end of the prior week.

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

	May 2, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			73,918
(a) Securities	15,399	11,609	27,008
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	15,354	6,519	21,873
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	4,245		
(3) SDRs	9,750		
(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)	73,918
--currencies in SDR basket	73,918
--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
U.S. DEPARTMENT OF THE TREASURY

May 7, 2008
HP-968

Treasury, OECD Co-Host International Conference on Financial Education

Washington - The Treasury Department and the Organization for Economic Cooperation and Development (OECD) welcomed officials from more than 40 countries today at the International Conference on Financial Education. The two-day conference will allow government officials, researchers, and non-profit and business leaders to share best practices and educational tools in the growing field of financial education. Secretary Paulson will deliver closing remarks Thursday, May 8.

"When it comes to financial education efforts around the world, the tide is rising," said Dan Iannicola, Jr., Deputy Assistant Secretary for Financial Education. "Although our economies each have unique characteristics, there are a number of common problems that arise in part because our populations lack the financial skills they need. By working together, beyond our national borders, we can move quickly and more effectively to find common solutions to these shared problems."

"In a world where financial risks are increasingly transferred to households, financial education has become an essential policy tool," said André Laboul, head of OECD's Financial Affairs Division. "There is an urgent need to develop a new culture of financial responsibility and to help citizens to become financially educated."

The conference will be available for viewing via webcast at

Treasury co-hosted the conference on behalf of the Financial Literacy and Education Commission, which published a National Strategy for Financial Education in 2006. One of the National Strategy's Calls to Action outlined the need for an international conference to share best practices and increase cooperation on financial education efforts. The National Strategy and other financial education resources are available at

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PRESS ROOM

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May 7, 2008
HP-969

Treasury Issues General License to Speed the Flow of Aid to Burma

Washington - The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), in consultation with the Department of State, issued a general license to help facilitate the flow of funds for humanitarian assistance to the Burmese people in the wake of Cyclone Nargis.

"The American people continue to demonstrate their concern for the people of Burma, particularly as they reel from the devastation of Cyclone Nargis," said OFAC Director Adam J. Szubin. "This license will help to clear the way for additional humanitarian aid to make it to the Burmese people swiftly and efficiently."

This general license is particularly needed in the wake of Cyclone Nargis and the resulting devastation. The issuance of this general license will ease the work of U.S. and third-country nongovernmental organizations (NGOs), as most will no longer need to apply to OFAC for specific licenses or registration numbers in order to transfer funds to Burma to support their humanitarian activities. The general license authorizes the export and reexport of financial services, including the flow of humanitarian funds, to Burma in support of the not-for-profit humanitarian or religious activities in Burma of U.S. or third-country NGOs.

Prior to the issuance of the general license, sending funds to Burma, which is generally prohibited under the Burma sanctions program, would have required the issuance of a specific license by OFAC. NGOs may continue to rely upon outstanding specific licenses and may apply for specific licenses to engage in funds transfers in support of humanitarian activities beyond the scope of the general license.

Existing general licenses already authorize the exportation or reexportation of financial services ordinarily incident to the exportation of goods, technology, or services, other than financial services, to Burma. This action will allow U.S. individuals and entities to send, and U.S. financial institutions to transfer, funds to Burma to be used to support the humanitarian activities of U.S. or third-country NGOs in Burma. Third-country individuals and entities also will be able to transfer dollar-denominated funds through the United States to be used to provide humanitarian assistance by NGOs in Burma. This general license does not authorize the provision of financial services directly or indirectly to the Government of Burma or to persons blocked under the Burma sanctions and such services remain prohibited.

All transfers authorized by this general license may be made utilizing the services of blocked financial institutions in Burma, provided the transfers are made through third-country banks (no debits or credits may be made to any blocked account on the books of a U.S. financial institution).

Please visit the following link to access the general license:
www.treasury.gov/offices/enforcement/ofac/programs/burma/gls/burmagl14.pdf

OFAC also will be sending a corresponding regulatory amendment to the Federal Register for publication.

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PRESS ROOM

May 8, 2008
HP-970

Secretary Henry M. Paulson, Jr. Remarks on the Economic Stimulus

Kansas City, Mo.--Thank you; it is great to be back in Kansas City. I have just come from one of Treasury's bureaus here, the Financial Management Service Regional Financial Center, where they are printing the economic stimulus checks that will put money in the hands of American families and boost our economy this year. It's fitting that I see this economic stimulus become a reality in Kansas City, because my visit here last December was among the events that convinced me that we needed to boost the U.S. economy, and do it early so it could make a difference in 2008.

In December, I was at the Bruce Watkins Cultural Heritage Center and Museum for a town hall meeting. I met with and heard from many homeowners about mortgage and other housing difficulties. They also talked of their concerns about the broader economy in Kansas City and Missouri. During that week, I also spent time in Florida and California, where I heard similar concerns. And when I got back to Washington, I talked to people in a variety of industries; I asked them what their business was telling them about where the economy was headed. My travels, my discussions with industry leaders and a review of the economic data with the rest of the President's economic team convinced me in mid-December that the economy had taken a sharp turn for the worse and the risks were to the downside going forward.

The President recognized the downturn early, and took decisive action. At the beginning of January, President Bush told the nation we were considering an economic stimulus package. Congressional leaders also saw the weakening economy and the need for action. The President directed me to work with Congress to craft legislation that would put cash in the hands of American consumers and help American businesses invest and create jobs. And the President directed me to get this job done quickly, because we needed to bolster both consumer spending and business investment to protect the health of our economy.

And today, we are seeing that our action couldn't have been more timely. We didn't wait for the twenty-twenty hindsight of economic data to confirm a slow economy, we knew it was happening. And because we didn't wait, the bipartisan stimulus package the President and the Congress enacted is injecting dollars into the economy now, when it can make a real difference.

It was a pleasure to work in a bipartisan spirit with House and Senate leaders. Together, we crafted a stimulus package that is big enough to have an impact, easy to implement, provides targeted payments and is temporary. We acted quickly to support our economy and help create jobs this year.

The package includes stimulus payments to households, and tax incentives for businesses to invest and create jobs. For households, single filers generally will receive a minimum of $300 and as much as $600, and joint filers will generally receive at least $600 and up to $1,200. There is also an additional $300 payment for each qualifying child. Total cash to households will be over $100 billion.

In 2001 and 2003, tax relief payments to individuals and families stimulated the broader economy by increasing consumer spending. Evidence suggests that households spent one-third to two-thirds of their 2001 and 2003 payments, and the current stimulus package is almost three times as large as what was enacted in 2001 --- $38 billion then, versus $100 billion now.

For businesses, there is a temporary change to the tax code that will allow them to buy new equipment this year and deduct an additional 50 percent of that investment cost in 2008. In addition, the package expanded the current expensing limits for small businesses, allowing up to $250,000 of qualifying purchases to be deducted for tax years beginning in 2008. Businesses will save approximately $50 billion in near-term taxes and lower taxes will help create new jobs this year.

At $150 billion – or around 1 percent of GDP --- these business and household measures are large enough to make a real difference as we weather the current economic slowdown and, by the end of this year, will lead to the creation of over 500,000 new jobs that would not have been created otherwise. And just as important, these initiatives are temporary – so as not to impact our long-term fiscal position. The cooperation between the Administration and the Congress demonstrated to the nation and to the world that we can come together to address the needs of the American people.

On February 13th the President signed the Economic Stimulus Act of 2008, the bipartisan bill that set this stimulus process in motion. Just 75 days later, on April 28th, the first electronic direct deposits were sent into Americans' bank accounts. Last week, the first week of payments, 7.7 million individual direct deposits averaging $920 were sent, amounting to more than $7 billion. And we are continuing this process every week, until about 44 million stimulus payments have been made through direct deposits.

This morning at the FMS center I saw employees printing checks non-stop on high speed printers. There are machines manufacturing envelopes and wrapping the envelopes around the checks. Checks are being sorted by zip code and loaded onto trays for pickup by the U.S. Postal Service. Today is the first day that economic stimulus checks are being mass produced --- more than two million checks are being printed at FMS centers across the country, and this is just the first big batch. During the rest of May, Kansas City will print 2.5 million checks a week. In June and July, once the regular tax filing season is finished, we expect Kansas City will send 3.75 million stimulus checks per week. FMS centers in Philadelphia, Austin and San Francisco are also preparing checks that will be, without a doubt, in the mail soon. In total, we will send an estimated 88 million stimulus payments as paper checks through the mail.

By the end of May, we will have pumped almost $50 billion into the economy and another $50 billion will follow --- by early July, about 130 million households will have almost $100 billion of payments in-hand.

We expect that these payments will help right away --- help individuals, families and our economy. Giving people cash means they can decide how best to use it. Seniors, veterans, moms, dads and grandparents can each put their payments toward what is important to them --- whether it's gas for a summer vacation, clothes for back to school, or a trip to see the grandkids.

And these payments will provide a boost to the U.S. economy as we go through a difficult patch. Our economy had been growing for more than six straight years when growth started to slow last winter. And it has remained slow in the first part of 2008. Wages have risen, but so have the costs of food, gasoline, and health care.

In addition, after years of unsustainable home price appreciation, we are experiencing an inevitable and necessary housing correction. We are working to minimize the impact of the housing correction on the rest of the economy, but we do not want to impede its progress --- because the sooner the correction is completed, the sooner we will see home values stabilize, the sooner we will see more people buying homes, and the sooner housing will again contribute to economic growth.

The ongoing housing correction and volatility in the financial markets are causing many Americans to feel uncertain. That is understandable and reasonable, and it's also true that the long-term economic prospects of the United States remain solid. I never tire of repeating that we have the most resilient economy in the world --- because it is true --- and that we will emerge from this period as we have emerged from past periods of difficulty and move on to new heights.

These stimulus payments will reduce the impact of the downturn on households across the nation. I am pleased to be here and have seen the evidence that when we say the check will be in the mail, we mean it. Thank you.

PRESS ROOM

May 8, 2008
HP-971

Prepared Remarks of Treasurer Anna Escobedo Cabral on the Economic Stimulus Package

San Francisco, CA-- I'm pleased to be here at the San Francisco Regional Financial Center today. Thank you for having me.

There is going to be a lot of anticipation around mailboxes in the coming days and weeks. And I'm pleased to report to many Americans, "Your check is in the mail!"

Your economic stimulus check that is.

I have just toured the San Francisco facility. It is a wonderful sight to see these checks rolling off the high-speed printers, very soon to be loaded into United States Postal Service trucks and making their way into the mailboxes and the hands of hardworking Americans across our nation.

Earlier this year, the President, Treasury Secretary Paulson, and members of Congress recognized that our economy was experiencing a slowdown. Our nation's top leaders and economic advisors joined together in a bipartisan effort to help Americans.

They acted swiftly by enacting an economic stimulus package that would put money in the hands of American consumers and businesses. This bipartisan plan, which was signed into law by the President in February, will inject needed money into our economy. We expect to see a meaningful boost in the economy in this quarter and through the remainder of the year.

Of course individuals will benefit. Single filers will generally receive a minimum of $300 and as much as $600. Married couples will generally receive $600 and up to $1200. There is also an additional $300 payment for every qualifying child.

This money is for families and individuals to spend as they choose. Some Americans will use it to make a new purchase for their home, take a vacation, pay down debt, or to buy everyday items like food or gas. *By trusting people with their own money, President Bush believes we can help family budgets, we can help local communities, and we can help the economy.*

We've followed this approach before – with the 2001 and 2003 rebates. While we saw that some Americans did choose to save the money, others went out and spent their checks. And we did see a boost in our economy. We fully expect this growth package to give the economy a boost and create new jobs this year.

The plan also includes incentives for businesses, including a temporary change to the tax code, nearly doubling the amount small businesses can expense and allowing firms to deduct an additional 50 percent of the value of new investments from their taxes this year.

Small business owners across the nation have begun to take advantage of these incentives:

Bob McCutcheon, the President of a family-owned apple products company is in the middle of a major retail expansion and is planning to purchase at least $150,000 in ovens, demonstration products, furniture, and cash registers. Bob had planned this expansion for years, but is said he wants to proceed this year as a result of the incentives provided in the stimulus package.

Dan Glier owns a meat company in Northern KY, and when the stimulus package passed, he began installing a new processing facility, an investment he would not have made without the incentives in the stimulus legislation.

And there's Ray Pinard, President and CEO of an online supplier of customized printing products, who responded to the bonus depreciation in the stimulus package by purchasing a $2 million off-set press. The incentives provided by the stimulus package made his purchase possible a year earlier than planned.

All around the US, there are stories like these. I'm sure there are plenty of small business owners taking advantage of these initiatives right here in San Francisco.

At $150 billion--or around 1 percent of GDP--these business and household measures are large enough to make a real difference as we weather the current economic slowdown, and by the end of this year will lead to the creation of more than 500,000 new jobs.

In the state of California, approximately 14.7 million households will receive about $12.4 billion in payments.

If you are still waiting on your stimulus payment, you won't be waiting much longer. I assure you that Treasury is working hard to ensure the checks will be in the mail as quickly as possible to more than 130 million households.

Last week, 7.7 million Americans received more than $7 billion in stimulus payments electronically. And we will continue this process every week, until about 44 million stimulus payments have been made through direct deposit.

This week mass production of paper checks will begin and will be largely completed in early July. San Francisco is just one of four distributions centers across our nation where paper checks are being printed today. The other centers are in Kansas City, Missouri; Philadelphia, Pennsylvania; and Austin, Texas. All told, the Treasury Department expects to send about 88 million stimulus paper checks through the mail by the end of the year.

Here in San Francisco, the staff operates high-speed laser printers capable of printing more than 60,000 checks per hour. During the month of May, on a weekly basis, the San Francisco center will disburse approximately 1 million economic stimulus checks. During June and July, this will increase to approximately 1.9 million checks per week.

I would like to take a moment to thank all the hardworking employees here at the San Francisco Regional Financial Center, including Director Philip Belisle and Deputy Director Abbie Loftus. I also send thanks to our regional centers across the country for all their hard work. Americans across our nation thank you for ensuring they get their checks ahead of schedule.

So keep up the good work, and keep those checks coming!

Thank you.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

May 9, 2008
HP-972

Treasury Under Secretary for International Affairs David McCormick Remarks on Global Financial Turmoil and its Implications for China

Shanghai –Thank you, Vice Chairman Zhu, for your kind introduction. I would like to thank the co-chairmen of the forum, Governor Zhou and Mayor Han, as well as the co-hosts of the forum at the CBRC, the CSRC, and the CIRC for inviting me to deliver remarks today. It is my distinct honor to participate in this inaugural session of the Lujiazui Financial Forum. I anticipate this year's event will be the first of many lively and informative sessions.

Today I'd like to talk about the recent financial turmoil in the United States – why it happened, how we have responded, and what lessons we have drawn for financial regulation and policy for the longer term. I will also suggest some of the lessons that I hope China will draw from this episode and why recent events should be seen as all the more reason for China to push ahead with financial sector reform.

I will make the case that continued financial sector reform and development is critical to China's own future growth and prosperity. Foreign participation – and the critical technology and knowhow that foreign investors bring – will help accelerate China's financial sector development.

Responses to the Financial Market Turmoil

In the United States

Why did this financial turmoil occur? A long period of benign credit conditions – relatively stable asset markets, low interest rates, and low inflation – encouraged many investors to seek higher returns. Responding to this demand, the financial services sector created a variety of complicated new products that diversified risk and lowered borrowing costs. Financial innovation brought enormous benefits, helping many people to move into homes, others to start or expand businesses, and investors to diversify their risk and enhance returns. Complacency about risk, however, encouraged a loosening of credit standards and an erosion of market discipline among investors, regulators, and credit rating agencies alike.

Last summer, these new vulnerabilities in our financial system became clear. Looser credit standards in the housing market, combined with an end to rapid home-price appreciation, led to a significant rise in delinquent mortgages. This in turn contributed to immediate and unexpected losses for investors and a reconsideration of the risk-reward relationship – first in housing, and soon after, across all asset classes. The shaken investor confidence in housing assets had a domino effect throughout world markets, ratcheting up demand for cash and liquidity, and curtailing the pace of the new lending and investment necessary for strong growth to continue.

In short, those in the United States and around the world were reminded of an age-old lesson: financial innovation, for all its advantages, sometimes produces unexpected consequences to which policymakers must quickly and creatively react.

Policy Responses: Domestic and International

Policymakers in the United States have responded quickly and aggressively to stabilize markets, reduce the impact of the turmoil on the real economy, and address underlying regulatory and policy weaknesses. At the same time, we have sought to avoid overreacting with regulations or policy responses that would stifle innovation or distort the natural self-correcting forces of markets.

Treasury Secretary Henry Paulson has led the U.S. government effort to ensure a comprehensive, timely and appropriate response to the turmoil. He and other authorities have urged banks to promptly recognize and report losses, and raise additional capital. Many global financial institutions have done just that – reporting subprime-related losses of over $300 billion and raising additional capital of more than $200 billion.

The U.S. government has acted decisively to help soften the negative impact of these events on the real economy, through fiscal policy and a series of initiatives to help families stay in their homes. The $150 billion economic stimulus package will support consumer and business spending as we weather the current economic slowdown, and will lead to the creation of over 500,000 new jobs that would not have been created otherwise.

The U.S. Federal Reserve and other central banks have taken focused, and sometimes coordinated, actions to protect the financial system from severe disruption by ensuring that markets have access to financing.

There are already some early indicators that this combination of actions is beginning to have the desired effect, as markets appear to be gaining confidence and the availability of credit has improved modestly.

As the immediate remedies take effect, we have also begun to focus on the weaknesses in business practices of financial institutions that this experience has revealed, and on fragmented U.S. and European regulatory structures that had difficulties guarding against or responding to modern challenges.

The President's Working Group on Financial Markets recently recommended changes to mitigate systemic risk and restore investor confidence to facilitate stable economic growth. The President and Secretary Paulson have welcomed these recommendations, and we are now implementing them.

At Treasury, we have also worked closely with counterparts in major economies around the world, including China, to address market instability. The Financial Stability Forum (FSF), which brings together the supervisors, central banks, and finance ministries of major financial centers, has been critical to this effort. The FSF has produced a series of recommendations that echo and complement efforts underway in the United States. These proposals include:

- Strengthening prudential oversight of capital adequacy, liquidity and risk management;
- Enhancing transparency and improved valuation, particularly for structured products;
- Revising and clarifying the role and use of credit ratings;
- Improving the responsiveness of authorities to risks; and,
- Creating robust arrangements for dealing with stress in the financial system.

There is no silver bullet to place financial markets on a sound footing or prevent past excesses from recurring, but each of these specific proposals represents an important step toward addressing the challenges we face. Taken together, they constitute a clear and significant response to the underlying weaknesses that contributed to the turmoil in global financial markets.

A Look Ahead

While our first priority is working through the current turmoil in the capital markets and the housing downturn, we are also considering longer term changes to our financial regulatory system to maintain efficient, safe, and sound U.S. capital markets. This dynamic process requires balancing appropriate regulation with the need for an environment that fosters innovation.

Specifically, Treasury has considered how to modernize our financial regulatory structure, which resembles a patchwork of overlapping agencies and responsibilities cobbled together over the past 75 years. Secretary Paulson's recently released *Blueprint for a Modernized Financial Regulatory Structure* proposes an optimal financial regulatory model that ensures market stability, safety and soundness for federal guarantees, and consumer and investor protection. It calls for a market stability regulator, a prudential financial regulator, and a business conduct regulator. We believe that this approach will foster innovation, mitigate risk, and enhance the competitiveness of America's capital markets.

Effects on the US and Global Economies

Although we have taken major policy steps to cushion the consequences of current market events on the real economy, they are undoubtedly having an impact. Growth has already slowed significantly to 0.6 percent in the last quarter of 2007 and the first quarter of this year. The combination of stress in financial markets, the housing correction, and high energy prices will weigh on growth through 2008, though fiscal stimulus will support the economy while corrections take place in the housing and financial markets. Despite these near-term challenges, our longer-term growth prospects remain sound because of the underlying strength of our institutions, the flexibility of our markets, and our capacity to absorb technological change.

Recent events have also made clear that emerging markets are not decoupled from events in the United States. As U.S. growth has slowed, so too has our demand for imports, affecting exporters in a variety of nations, including China. At the same time, emerging market growth has shown resilience in the face of a U.S. showdown. Most emerging market countries have followed prudent macroeconomic policies, giving them room to respond to slowing external demand. Stronger domestic demand growth in emerging markets like China is playing an important role in cushioning the impact of the U.S. slowdown.

Financial Market Turmoil and China

China has weathered the recent turmoil relatively well. Stronger growth in domestic consumption has offset much of the weakness in external demand. Moreover, a slowing of overall Chinese economic growth from last year's pace may in fact be welcome in addressing concerns about excessive growth in investment and rising domestic inflation. The sharp fall in Chinese equity prices since last October appears more due to domestic factors than to linkages with global stock markets.

Financial Reform and Future Growth

Despite its relatively benign effects thus far, I fear the recent bout of turbulence in global financial markets is being viewed by some in China as a reason to slow or pause financial sector reform. I hope Chinese policymakers will ask the more pertinent question: What lessons should China's leaders draw from recent events as they consider the pace and potential benefits of financial sector reform?

This morning's presentations highlighted the giant leaps China has made in financial sector reform in the past decade, from the banking sector to the stock, foreign exchange, and bond markets. These reforms have been important for laying the foundation to address the key challenges ahead in China's financial sector development. These challenges include:

- Increasing access to direct financing through the equity and bond markets;
- Developing a yield curve for government bonds that can be used as the baseline for pricing other financial products;
- Introducing a variety of financial products to hedge risk; and,
- Fostering the growth of institutional investors.

These are the basic building blocks of financial sector development, not exotic products on the cutting edge of financial innovation. There are risks, to be sure, in carrying out these reforms. Financial regulation and supervision must be developed in tandem. But policymakers in China must also recognize that there will be significant costs if China slows the development and reform of its financial sector. Important gains for China and its people would be left unrealized. An ambitious reform agenda will advance China's economic goals in four important ways by:

- Rebalancing the sources of China's growth to ensure that it is more harmonious, more energy and environmentally efficient, and provides greater welfare for Chinese households;
- Creating effective macroeconomic policy tools to ensure stable, non-inflationary growth;
- Supporting China's transition to a market-driven and innovation-based economy; and,
- Assisting in dealing with demographic challenges.

First, as China's economy becomes more sophisticated, an efficient, well-developed financial sector is essential to channeling capital to the new ideas, businesses, and entrepreneurs that will power future growth. As China's economy becomes more complex, so too will its need for financial services. A more developed financial sector is necessary to fund the industries of tomorrow.

A more developed financial sector is also essential in shifting to a growth model that can be sustained in the future, one less dependent on industrial activity and exports, and one more oriented towards services and household demand. Key to this is reducing the need for very high saving rates. A greater diversity of financial instruments for saving, risk diversification, and consumer borrowing would relieve some of the need for precautionary saving.

A higher risk adjusted return from a broader array of financial assets would allow Chinese households to achieve their financial goals – such as buying a house, educating their children, or achieving a secure retirement – without having to set aside large portions of their current income. A more developed financial sector will also provide Chinese enterprises with options beyond reinvesting earnings primarily in expanding their own capacity. This will enhance the efficiency of capital allocation and dampen the volatility of investment cycles.

Third, more developed financial markets will help bring greater stability to China's economy by giving the authorities the macroeconomic tools – flexible and more powerful monetary policy in particular – to assure stable growth and prices. Deeper, interconnected bond markets would give the central bank greater ability to guide market interest rates and credit throughout the economy to ensure continued strong, stable, and non-inflationary growth.

Finally, a robust financial sector will help to enable China to deal with the demographic challenges that lie ahead, including population aging and the provision of healthcare. A deep and sophisticated financial sector will be critical to strengthening the social safety net and providing tools such as health care insurance and retirement investment vehicles necessary to cope with growing demographic pressures.

The Role of Foreign Participation

Greater foreign participation will contribute substantially to financial sector reform, and for that reason, it has been a top priority for the Strategic Economic Dialogue (SED) launched by Presidents Hu and Bush.

We recognize the concerns of some in China who believe that opening the doors to foreign financial firms could jeopardize the position of domestic firms. On the contrary, we believe that increased foreign participation expands the breadth and depth of opportunities for all firms in the market, including domestic Chinese firms. This is not a zero-sum game. Clearly, foreign firms stand to benefit from expanded opportunities in China. But they will also enhance the diversity of financial products in China, improve allocation of capital, and spur innovation, all of which will benefit China's economy and its people.

Foreign investment in Chinese financial institutions has, in fact, turned institutions that were a drain on fiscal resources into engines of growth – creating jobs and strengthening financial sector soundness. Take for example, Shenzhen *(shun-jun)* Development Bank, which was one of the first banks to be controlled by a foreign investor. Over the past several years, profitability and capital adequacy at the bank have increased significantly, while non-performing loans have declined sharply. The bank is lending more to finance households and medium-sized enterprises.

We have heard from financial institutions across China that meeting the strong demand for experienced personnel is a challenge in this period of rapid expansion. Increased foreign participation in the financial sector will expedite the development of world class financial sector talent within China, benefiting Chinese workers, businesses, and financial centers like Shanghai.

Looking forward, the current approach of offering limited scope for foreign investment in Chinese financial firms hinders the growth opportunities of China's entire financial sector. It leads to unwieldy managerial and ownership arrangements that reduce operational flexibility and the transfer of financial technology. We believe that higher ownership thresholds for foreign firms would benefit the financial sector overall and the Chinese businesses that depend on it to grow their companies and create jobs. China achieved great success by opening its manufacturing sector to foreign investment. This has fostered – not inhibited – growth of Chinese manufacturers. Greater opening in financial services will do the same.

Just as openness to foreign investment is important for strong growth in China, openness to foreign investment is fundamental to the United States. The United States is committed to ensuring a stable and open international financial system. In his Statement on Open Economies last May, President Bush reaffirmed the United States' long-standing policy of welcoming international investment.

Foreign investment creates good jobs, spurs innovation, improves productivity, and results in lower prices and greater variety for consumers in the United States. Foreign direct investment flows into the United States were $204 billion in 2007, which is nearly double the level of a decade earlier. Research shows that foreign-owned firms in the United States directly employ over 5 million Americans – 4.5 percent of all private sector employment. These are good jobs, paying more than 25 percent higher compensation on average than other private sector jobs. Foreign firms also indirectly employ about the same number of Americans. Foreign-owned firms contribute almost six percent of U.S. output, 14 percent of U.S. R&D spending, and 19 percent of U.S. exports.

Despite the benefits of foreign investment, there is rising protectionist sentiment around the world that poses a dangerous threat to the global economy. We unfortunately see some of these same protectionist forces in our own country. A number of countries are considering new or revised investment review mechanisms, some of which have the potential to impose broad barriers. We are engaging our counterparts bilaterally, and through multilateral institutions to emphasize the importance of crafting policies that are predictable for investors and ensure proportional responses to genuine national security concerns. Investment reviews must not be used to promote protectionist policies.

I know some of you may have concerns about the investment review process in the United States, known as CFIUS, or the Committee on Foreign Investment in the United States, a committee that is chaired by the U.S. Treasury. However, I want to make clear that the legal authority of CFIUS is narrowly targeted to address only acquisitions that raise genuine national security concerns, not broader economic interests or industrial policy factors.

Moreover, we are committed to living up to both the letter and the spirit of the new law and the President's open investment statement. Last month, Treasury issued proposed CFIUS regulations to implement our new Foreign Investment law which passed our Congress and was signed by the President last year. The new regulations clarify and improve our existing process, reinforce strong open investment principles and procedural protections for foreign investors, and ensure a more timely and efficient review process. Our focus in this area reflects Secretary Paulson's strong commitment to maintaining an open investment climate in the United States.

Sustaining China's Growth

For all the reasons I have described, financial market development is key to assuring that strong Chinese growth is sustained in the future. This is vital to China and the global economy. But financial market development alone is not enough. China also needs to rebalance the sources of its growth away from heavy industry and exports towards products and services for Chinese households. This is essential if China is to reduce inequality, assure environmentally harmonious growth, and trim its huge and growing current account surplus. Achieving these goals will require China to take structural measures to build a strong social safety net and channel the growing profits of Chinese enterprises to their owners.

Also critical to sustained growth for China is greater exchange rate flexibility. A more flexible RMB would give China's policy makers greater scope to adjust monetary policy as needed to maintain price stability and to address the risks of excessive investment and credit growth. Just as it was important for the Federal Reserve to have a monetary policy framework that allowed it to move quickly to maintain financial stability, the People's Bank needs to be able to move rapidly to contain inflation today and safeguard financial stability.

Exchange rate flexibility is also needed to provide the price signals that will ensure a more market-driven allocation of resources and investment. RMB appreciation would provide greater incentives for domestic firms to direct investment towards the domestic market and produce goods and services for Chinese consumers. In this regard, the increased pace of RMB appreciation since last October is welcome. We urge China's leaders to maintain this accelerated pace.

Conclusion

There are many reasons to believe that the appetite for economic reform in China may be waning, after years of demanding reforms. Each successful reform brings calls from around the world for yet more. Global volatility in financial markets may give China's leaders pause as they chart the course ahead. However, I urge our friends in China to use the lessons of the current turmoil to sharpen their focus and strengthen their commitment to the bold path of financial sector reform on which they have embarked. It is a critical component of China's future, economic growth, and stability.

As I reflect on recent events, I am confident that the United States will pass through this current phase of turmoil and return to the path of sustained growth. I am also convinced that China will successfully overcome the challenges that it faces in achieving sustained long term growth and stability in an increasing complex economy. We must not forget that our economies are more interconnected and more dependent on each other than ever before. Together, we can bring prosperity to our own countries and the world economy.

May 9, 2008
HP-973

Week 2 Wrap-Up: Treasury Sent 22.180 Million Stimulus Payments This Week

This week the Treasury Department sent out 22.180 million economic stimulus payments to American households totaling $20.138 billion. So far, Treasury has sent out 29.888 million total economic stimulus payments totaling $27.230 billion.

Week Two (May 5-May9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

Cumulative Total

Total Number of Payments: 29.888 million
Total Amount of Payments: $27.230 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28th and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15, households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM

May 12, 2008
HP-974

Treasury Authorizes Unlimited Personal Remittances to Burma

Washington - The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC), in consultation with the Department of State, has moved to ease the humanitarian crisis in Burma by removing the limit on funds that U.S. individuals are allowed to send to family and friends in Burma.

"The people of Burma need all the help we can provide during this crisis," said OFAC Director Adam J. Szubin. "This action will speed the flow of aid to the Burmese people by allowing Americans to send an unlimited amount of funds to their relatives and friends who are in need."

This action, made effective by the issuance of General License No. 15, authorizes U.S. financial institutions to process transfers of funds, unlimited in amount, for noncommercial, personal remittances to or from Burma, or for or on behalf of an individual ordinarily resident in Burma. Prior to the issuance of this general license, noncommercial, personal remittances to Burma were only permitted if the total remittances did not exceed $300 per Burmese household in any consecutive three-month period.

General License No. 15 does not allow transfers by, to, or through persons blocked under the Burma sanctions program. This license, however, does allow transfers to be made utilizing the services of blocked financial institutions in Burma, provided the transfers are made through third-country banks and that debits or credits are not made to any blocked account that is on the books of a U.S. financial institution.

In addition, OFAC has amended General License No. 14. The previously issued General License No. 14 authorized the transfer of funds in support of not-for-profit humanitarian or religious activities in Burma only if they involved U.S. or third-country nongovernmental organizations (NGOs). The Amended General License No. 14 expands that authorization, for a period of 120 days, to allow funding to any organization or individual engaged in not-for-profit humanitarian or religious activities in Burma, with the exception of the Government of Burma itself or any person blocked under the Burma sanctions program.

OFAC expects to re-issue the original General License No. 14, allowing transfers consistent with its terms to continue upon the expiration in 120 days of the Amended General License No. 14. U.S. persons also may continue to make charitable donations to NGOs in Burma that are authorized to operate pursuant to specific licenses that have been issued by OFAC.

Please visit the following link to access the new and amended general licenses:

http://www.treasury.gov/offices/enforcement/ofac/actions/20080509.shtml

OFAC also will send a corresponding regulatory amendment to the *Federal Register* for publication.

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PRESS ROOM

May 13. 2008
2008-5-13-12-54-0-28692

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 $74,424 million as of the end of that week, compared to $73,918 million as of the end of the prior week.

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

	May 9. 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			74.424
(a) Securities	15.489	11.878	27.367
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	15.358	6.666	22.024
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	4.244		
(3) SDRs	9.748		
(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)	74,424
--currencies in SDR basket	74,424
--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
U.S. DEPARTMENT OF THE TREASURY

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May 13, 2008
hp-975

Treasury, IRS Issue 2009 Indexed Amounts for Health Savings Accounts

Washington, DC--The Treasury Department and Internal Revenue Service today issued new guidance on the maximum contribution levels for Health Savings Accounts (HSAs) and out-of-pocket spending limits for High Deductible Health Plans (HDHPs) that must be used in conjunction with HSAs. These amounts have been indexed for cost-of-living adjustments for 2009 and are included in Revenue Procedure 2008-29, which announces changes in several indexed amounts for purposes of the federal income tax.

The new levels are as follows:

New Annual Contribution Levels for HSAs:

- For 2009, the maximum annual HSA contribution for an eligible individual with self-only coverage is $3,000.
- For family coverage, the maximum annual HSA contribution is $5,950.
- Catch up contribution for individual who are 55 or older is increased by statute to $1,000 for 2009 and all years going forward.
- Individuals who are eligible individuals on the first day of the last month of the taxable year (December for most taxpayers) are allowed the full annual contribution (plus catch up contribution, if 55 or older by year end), regardless of the number of months the individual was an eligible individual in the year. For individuals who are no longer eligible individuals on that date, both the HSA contribution and catch up contribution apply pro rata based on the number of months of the year a taxpayer is an eligible individual.

New Amounts for Out-of-Pocket Spending on HSA-Compatible HDHPs:

- For 2009, the maximum annual out-of-pocket amounts for HDHP self-coverage increase to $5,800 and the maximum annual out-of-pocket amount for HDHP family coverage is twice that, $11,600.

Minimum Deductible Amounts for HSA-Compatible HDHPs:

- For 2009, the minimum deductible for HDHPs increases to $1,150 for self-only coverage and $2,300 for family coverage.

In addition, a fiscal year plan that satisfies the requirements for an HDHP on the first day of the first month of its fiscal year may apply that deductible for the entire fiscal year.

Revenue Procedure 2008-29 is attached.

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REPORTS

- Revenue Procedure 2008-29

Part III

Administrative, Procedural, and Miscellaneous

26 CFR 601.602: Tax forms and instructions.
(Also: Part 1, §§ 1, 223.)

Rev. Proc. 2008-29

SECTION 1. PURPOSE

This revenue procedure provides the 2009 inflation adjusted amounts determined under § 223(g) of the Internal Revenue Code for Health Savings Accounts (HSAs).

SECTION 2. 2009 INFLATION ADJUSTED ITEMS

Annual contribution limitation. For calendar year 2009, the annual limitation on deductions under § 223(b)(2)(A) for an individual with self-only coverage under a high deductible health plan is $3,000. For calendar year 2009, the annual limitation on deductions under § 223(b)(2)(B) for an individual with family coverage under a high deductible health plan is $5,950.

High deductible health plan. For calendar year 2009, a "high deductible health plan" is defined under § 223(c)(2)(A) as a health plan with an annual deductible that is not less than $1,150 for self-only coverage or $2,300 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed $5,800 for self-only coverage or $11,600 for family coverage.

SECTION 3. EFFECTIVE DATE

This revenue procedure is effective for calendar year 2009.

SECTION 4. DRAFTING INFORMATION

The principal author of this revenue procedure is Marnette M. Myers of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding § 223 and HSAs, contact Elizabeth Purcell at (202) 622-6080 (not a toll free call). For further information regarding the calculation of the inflation adjustments in this revenue procedure contact Ms. Myers at (202) 622-4920 (not a toll free call).

PRESS ROOM

May 14, 2008
HP-976

Statement by Deputy Secretary Kimmitt,
on U.S. –EU Open Investment Statement

Washington, DC-- Treasury Deputy Secretary Robert M. Kimmitt welcomed the issuance of the U.S.--EU Open Investment Statement by the United States and the European Commission. The statement echoes President Bush's May 2007 Statement on Open Economies and signals the continued commitment of the world's two largest economies to promoting open investment policies both at home and abroad. The statement was announced at a meeting this week of the Transatlantic Economic Council in Brussels, Belgium, which Deputy Secretary Kimmitt attended, and was developed by the U.S.-EU Investment Dialogue, which works to reduce transatlantic and global investment barriers.

"Trade and foreign investment create jobs, bring healthy competition, encourage companies to innovate and improve, and give consumers a wider variety of choices and lower prices on everything from food to clothes to cars," said Kimmitt. "By maintaining open economies and increasing investment opportunities, the United States and the European Union will enhance transatlantic economic ties and strengthen efforts to increase openness around the world that will deliver economic growth and job creation."

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REPORTS

- U.S.—EU Open Investment Statement

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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May 15, 2008
HP-977

Treasury International Capital (TIC) Data for March

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which will report on data for April, is scheduled for June 16, 2008.

Net foreign purchases of long-term securities were $80.4 billion.

- Net foreign purchases of long-term U.S. securities were $80.2 billion. Of this, net purchases by foreign official institutions were $
purchases by private foreign investors were $32.1 billion.
- U.S. residents sold a net $0.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $54.2 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $13.5
holdings of Treasury bills increased $27.8 billion.

Banks' own net dollar-denominated liabilities to foreign residents declined $115.9 billion.

Monthly net TIC flows were negative $48.2 billion. Of this, net foreign private flows were negative $57.6 billion, and net foreign official fl

-30-

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

				12 Months Through			
		2006	2007	Mar-07	Mar-08	Dec-07	Jan-(
	Foreigners' Acquisitions of Long-term Securities						
1	Gross Purchases of Domestic U.S. Securities	21077.1	29729.8	22645.7	32265.1	2314.1	3137
2	Gross Sales of Domestic U.S. Securities	19933.9	28725.1	21478.8	31337.4	2244.7	3061
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1004.6**	**1166.9**	**927.7**	**69.4**	**76**
4	**Private, net /2**	**946.6**	**816.9**	**964.9**	**677.8**	**33.6**	**23**
5	Treasury Bonds & Notes, net	125.9	198.2	175.9	183.5	-9.1	(
6	Gov't Agency Bonds, net	193.8	107.0	156.0	144.5	-7.4	19
7	Corporate Bonds, net	482.2	331.3	508.3	202.3	29.1	-(
8	Equities, net	144.6	180.4	124.8	147.5	21.0	3
9	**Official, net /3**	**196.6**	**187.7**	**202.0**	**249.9**	**35.8**	**52**
10	Treasury Bonds & Notes, net	69.6	3.0	54.9	64.8	11.0	36
11	Gov't Agency Bonds, net	92.6	119.1	112.4	99.5	4.1	-(
12	Corporate Bonds, net	28.6	50.6	30.7	52.2	8.2	3
13	Equities, net	5.8	15.1	4.0	33.5	12.5	13

14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8188.1	6031.9	8559.9	600.2	77(
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.3	6308.9	8741.1	612.6	79(
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-223.2**	**-277.1**	**-181.2**	**-12.4**	**-19**
17	Foreign Bonds Purchased, net	-144.5	-127.9	-169.4	-98.3	-12.4	-17
18	Foreign Equities Purchased, net	-106.5	-95.3	-107.7	-82.9	0.0	-2
19	**Net Long-Term Securities Transactions** (line 3 plus line	**892.3**	**781.5**	**889.9**	**746.5**	**57.0**	**56**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-234.2**	**-195.4**	**-236.2**	**-13.8**	**-17**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**717.7**	**547.2**	**694.5**	**510.2**	**43.2**	**38**
22	**Increase in Foreign Holdings of Dollar-denominated Short-U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**226.1**	**197.1**	**257.7**	**43.9**	**76**
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-0.6**	**76.1**	**15.1**	**11**
24	Private, net	16.1	29.3	19.5	69.9	4.0	(
25	Official, net	-25.0	19.5	-20.0	6.2	11.1	1(
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**177.3**	**197.6**	**181.6**	**28.8**	**64**
27	Private, net	174.9	101.2	194.0	111.4	27.7	57
28	Official, net	-19.8	76.1	3.7	70.2	1.0	6
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**198.0**	**-108.6**	**-53.1**	**-281.9**	**-4.6**	**-80**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**1061.8**	**664.7**	**838.4**	**485.9**	**82.4**	**34**
	of which						
31	Private, net	923.0	377.8	645.0	206.8	31.6	-42
32	Official, net	138.9	286.8	193.4	279.2	50.8	76

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

/2 Includes international and regional organizations

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

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

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securitie
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 C

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

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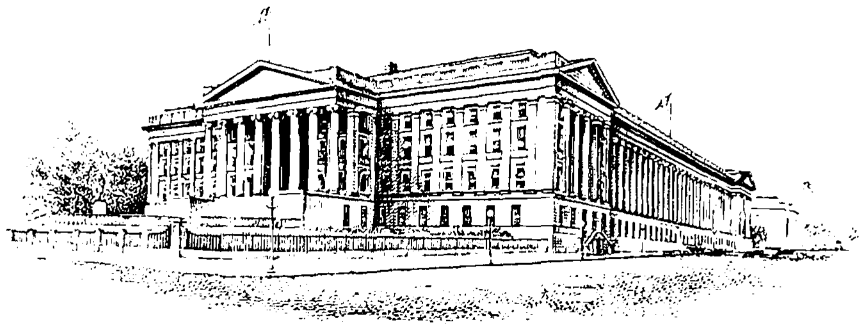
REPORTS

- (PDF) TIC Monthly Reports on Cross-Border Financial Flows (Billions of dollars, not seasonally adjusted)



DEPARTMENT OF THE TREASURY

OFFICE OF PUBLIC AFFAIRS

May 15, 2008
EMBARGOED UNTIL 9:00 AM

Contact: Rob Saliterman
(202) 622-2960

TREASURY INTERNATIONAL CAPITAL DATA FOR MARCH

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- U.S. residents sold a net $0.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $54.2 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $13.5 billion. Foreign holdings of Treasury bills increased $27.8 billion.

Banks' own net dollar-denominated liabilities to foreign residents declined $115.9 billion.

Monthly net TIC flows were negative $48.2 billion. Of this, net foreign private flows were negative $57.6 billion, and net foreign official flows were $9.3 billion.

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2006	2007	12 Months Through Mar-07	12 Months Through Mar-08	Dec-07	Jan-08	Feb-08	Mar-08
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	21077.1	29729.8	22645.7	32265.1	2314.1	3137.9	2922.6	3075.4
2	Gross Sales of Domestic U.S. Securities	19933.9	28725.1	21478.8	31337.4	2244.7	3061.5	2844.7	2995.2
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1004.6**	**1166.9**	**927.7**	**69.4**	**76.4**	**77.9**	**80.2**
4	**Private, net /2**	**946.6**	**816.9**	**964.9**	**677.8**	**33.6**	**23.6**	**71.1**	**32.1**
5	Treasury Bonds & Notes, net	125.9	198.2	175.9	183.5	-9.1	0.4	24.2	27.0
6	Gov't Agency Bonds, net	193.8	107.0	156.0	144.5	-7.4	19.9	35.7	2.7
7	Corporate Bonds, net	482.2	331.3	508.3	202.3	29.1	-0.6	14.9	-8.7
8	Equities, net	144.6	180.4	124.8	147.5	21.0	3.8	-3.7	11.1
9	**Official, net /3**	**196.6**	**187.7**	**202.0**	**249.9**	**35.8**	**52.8**	**6.7**	**48.1**
10	Treasury Bonds & Notes, net	69.6	3.0	54.9	64.8	11.0	36.1	-3.6	28.0
11	Gov't Agency Bonds, net	92.6	119.1	112.4	99.5	4.1	-0.6	1.2	15.5
12	Corporate Bonds, net	28.6	50.6	30.7	52.2	8.2	3.9	4.4	4.1
13	Equities, net	5.8	15.1	4.0	33.5	12.5	13.3	4.8	0.4
14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8188.1	6031.9	8559.9	600.2	770.5	683.0	751.9
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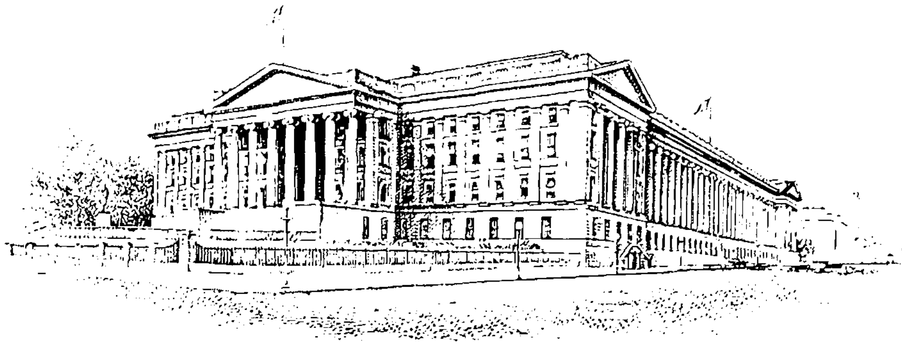
REPORTS

- U.S.—EU Open Investment Statement



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2	Gross Sales of Domestic U.S. Securities	19933.9	28725.1	21478.8	31337.4	2244.7	3061.5	2844.7	2995.2
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1004.6**	**1166.9**	**927.7**	**69.4**	**76.4**	**77.9**	**80.2**
4	**Private, net /2**	**946.6**	**816.9**	**964.9**	**677.8**	**33.6**	**23.6**	**71.1**	**32.1**
5	Treasury Bonds & Notes, net	125.9	198.2	175.9	183.5	-9.1	0.4	24.2	27.0
6	Gov't Agency Bonds, net	193.8	107.0	156.0	144.5	-7.4	19.9	35.7	2.7
7	Corporate Bonds, net	482.2	331.3	508.3	202.3	29.1	-0.6	14.9	-8.7
8	Equities, net	144.6	180.4	124.8	147.5	21.0	3.8	-3.7	11.1
9	**Official, net /3**	**196.6**	**187.7**	**202.0**	**249.9**	**35.8**	**52.8**	**6.7**	**48.1**
10	Treasury Bonds & Notes, net	69.6	3.0	54.9	64.8	11.0	36.1	-3.6	28.0
11	Gov't Agency Bonds, net	92.6	119.1	112.4	99.5	4.1	-0.6	1.2	15.5
12	Corporate Bonds, net	28.6	50.6	30.7	52.2	8.2	3.9	4.4	4.1
13	Equities, net	5.8	15.1	4.0	33.5	12.5	13.3	4.8	0.4
14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8188.1	6031.9	8559.9	600.2	770.5	683.0	751.9
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.3	6308.9	8741.1	612.6	790.1	696.0	751.6
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-223.2**	**-277.1**	**-181.2**	**-12.4**	**-19.7**	**-12.9**	**0.3**
17	Foreign Bonds Purchased, net	-144.5	-127.9	-169.4	-98.3	-12.4	-17.3	5.3	4.2
18	Foreign Equities Purchased, net	-106.5	-95.3	-107.7	-82.9	0.0	-2.3	-18.3	-4.0
19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**892.3**	**781.5**	**889.9**	**746.5**	**57.0**	**56.7**	**64.9**	**80.4**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-234.2**	**-195.4**	**-236.2**	**-13.8**	**-17.9**	**-15.4**	**-26.3**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**717.7**	**547.2**	**694.5**	**510.2**	**43.2**	**38.8**	**49.6**	**54.2**
22	**Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**226.1**	**197.1**	**257.7**	**43.9**	**76.3**	**-0.7**	**13.5**
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-0.6**	**76.1**	**15.1**	**11.6**	**14.6**	**27.8**
24	Private, net	16.1	29.3	19.5	69.9	4.0	0.8	17.4	30.9
25	Official, net	-25.0	19.5	-20.0	6.2	11.1	10.8	-2.8	-3.0
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**177.3**	**197.6**	**181.6**	**28.8**	**64.8**	**-15.4**	**-14.3**
27	Private, net	174.9	101.2	194.0	111.4	27.7	57.9	-9.8	-7.1
28	Official, net	-19.8	76.1	3.7	70.2	1.0	6.9	-5.6	-7.2
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**198.0**	**-108.6**	**-53.1**	**-281.9**	**-4.6**	**-80.3**	**0.1**	**-115.9**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**1061.8**	**664.7**	**838.4**	**485.9**	**82.4**	**34.8**	**48.9**	**-48.2**
	of which								
31	Private, net	923.0	377.8	645.0	206.8	31.6	-42.0	58.4	-57.6
32	Official, net	138.9	286.8	193.4	279.2	50.8	76.7	-9.5	9.3

/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 website.

/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 website.

/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 website describes the scope of TIC data collection.

PRESS ROOM

May 15, 2008
hp-978

Treasury Designates Three Entities of Major Petrochemicals Conglomerate in Belarus

Washington - The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated three enterprises of Belneftekhim Concern. Today's action builds on the November 13, 2007, designation of Belneftekhim Concern.

The Belarusian enterprises designated today are Lakokraska OAO, Polotsk Steklovolokno OAO, and the Belarusian Oil Trade House. Lakokraska OAO is a subsidiary of Belneftekhim Concern and manufactures varnishes and paints. Polotsk Steklovolokno OAO, also a subsidiary of Belneftekhim Concern, manufactures glass, silica fibers, and other related products. The Belarusian Oil Trade House is an enterprise of Belneftekhim Concern and acts as a clearinghouse for financial, contractual, and web-based transactions on behalf of Belneftekhim Concern and its subsidiaries. The Belarusian Oil Trade House also operates an online auction trading system called United Trading Site.

Today's designations were made pursuant to Executive Order 13405, which authorizes the Secretary of the Treasury to designate individuals or entities that are responsible for undermining, or have participated in actions that undermine, democratic processes or institutions in Belarus; that are responsible for, or have participated in, human rights abuses related to political oppression in Belarus; that are senior officials, family members of such officials, or persons closely linked to such officials, who are responsible for or have engaged in public corruption related to Belarus; have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of, the activities described above, or any person listed in or designated pursuant to Executive Order 13405; or that are owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person listed in or designated pursuant to Executive Order 13405.

As a result of Treasury's designations, any assets of these entities that are within U.S. jurisdiction must be frozen. Additionally, U.S. persons are prohibited from conducting financial or commercial transactions with these entities.

Please visit the following link for more information about the November 13, 2007, designation of Belneftekhim Concern:

http://www.treas.gov/press/releases/hp676.htm

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PRESS ROOM

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November 13, 2007
HP-676

Treasury Targets Lukashenko-controlled Petrochemical Conglomerate

Washington, D.C.--The U.S. Department of the Treasury today designated Belarus' largest petrochemical conglomerate under Executive Order 13405 as being controlled by oppressive Belarusian president Alexander Lukashenko.

"Today's action tightens our sanctions against Lukashenko and his cronies by imposing financial sanctions against a massive conglomerate under the regime's control," said Adam Szubin, Director of Treasury's Office of Foreign Assets Control (OFAC).

Belarusian State Concern for Oil and Chemistry, a.k.a. Belneftekhim, along with its representative offices in Germany, Latvia, the Ukraine, Russia, and China, and its wholly-owned U.S. subsidiary Belneftekhim USA, Inc., were added to Treasury's list of Specially Designated Nationals and Blocked Persons, with the result that any assets the entities hold under U.S. jurisdiction must be frozen and U.S. persons are prohibited from transacting or doing business with the designated entities.

Today's action follows the 2006 blocking of the assets of Lukashenko and nine other senior officials of his administration. In February 2007, Treasury blocked the assets of another 6 high-ranking Belarusian officials, bringing the total number of designated officials to 16.

Today's designations are made pursuant to Executive Order (E.O.) 13405, which was issued in 2006 in light of the oppression by Lukashenko and key members of his administration. E.O. 13405 authorizes the Secretary of the Treasury, after consultation with the Secretary of State, to block the assets of individuals or entities determined to be responsible for, or to have participated in, actions or policies that undermine democratic processes or institutions in Belarus; to be responsible for, or have participated in, human rights abuses related to political repression in Belarus; to be senior officials, family members of such officials, or persons closely linked to such officials who are responsible for, or have engaged in, public corruption related to Belarus; to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of, the activities described above or any person listed in or designated pursuant to E.O. 13405; or to be owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person listed in or designated pursuant to E.O. 13405.

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PRESS ROOM

May 15, 2008
HP-979

Paulson to Moderate Panel in Chicago Next Week on Global Competitiveness

Secretary Henry M. Paulson, Jr. will moderate a panel next week at the Commerce Department's 2008 National Summit on American Competitiveness in Chicago. The summit brings together business, government and academic leaders to ensure America's economy remains the most competitive in the world.

Paulson will moderate a panel on successful economic transformations in an era of global competitiveness. Panel participants include Mississippi Governor Haley Barbour, Arizona Governor Janet Napolitano, South Carolina Governor Mark Sanford, Mayor Richard Daley of Chicago and Mark Drabenstott, Director of the National Center for Regional Competitiveness at the University of Missouri-Columbia.

More information on the conference is available at:
http://www.americancompetitiveness.com/

Who
Secretary Henry M. Paulson, Jr.

What
Moderating Panel at National Summit on American Competitiveness

When
2:45-3:45 p.m. (CDT), Thursday, May 22

Where
Fairmont Hotel
200 North Columbus Drive
Chicago, Ill.

Note
Press must register in advance at
http://www.americancompetitiveness.com/press.reg

PRESS ROOM

May 15, 2008
HP-980

Treasury Releases Semiannual Report on International Economic and Exchange Rate Policies

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

LINKS

- Semiannual Report on International Economic and Exchange Rate Policies

UNITED STATES DEPARTMENT OF THE TREASURY

OFFICE OF INTERNATIONAL AFFAIRS

SEMIANNUAL REPORT ON INTERNATIONAL ECONOMIC AND EXCHANGE RATE POLICIES

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

Authorizing Statute

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December 2007
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December 2006
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Last Updated: May 15, 2008

PRESS ROOM

May 16, 2008
HP-981

Remarks by Secretary Henry M. Paulson, Jr.
on the U.S. Economy, Housing and Capital Markets
before the Washington Post 200 Lunch

Washington - Thank you, Len. Over the last forty years, Washington has transformed into a diverse corporate center. Congratulations to the Post for recognizing this through their annual list of 200. And I am pleased to join you and represent the "old" Washington, the less than ten percent of the region's workers who work for the federal government.

While the Post 200 companies may be headquartered here, your operations span the nation and the world and so I will provide an update on the housing and credit markets and the U.S. economy, and look forward to learning your views of the same.

Housing Markets

The housing correction began in 2006, and most forecasters expect a prolonged period of adjustment. Four points sum up my current view of the progress of that correction and our efforts to minimize its spillover into the rest of the economy.

First, our focus since last summer - to help homeowners avoid preventable foreclosures – is the right focus and it has been successful. We encouraged the creation of the HOPE NOW Alliance of mortgage lenders, servicers and counselors, to streamline efforts to help struggling borrowers. The Alliance reports that, since July, the industry has helped 1.4 million homeowners with loan workouts that allowed them to stay in their homes. The rate of workouts has now increased to about 2 million per year. In addition, we've taken administrative steps to expand access to FHA programs and enabled almost 200,000 borrowers to refinance into affordable FHA mortgages since August. These are significant numbers, and a significant achievement, particularly when you consider that 2 million is also the estimated number of homes that will go into foreclosure this year.

Second, there is no silver bullet to undo the lax underwriting practices of recent years. Because of these past excesses, foreclosures will remain elevated even if we avoid every single preventable foreclosure.

Third, we know the correction has further to go, and so we should not be surprised at headlines that note rising foreclosures and falling home prices. But the correction is progressing. We are working through the excess inventory --- the inventory of new single-family homes for sale is down 18 percent from its 2006 peak. As of April, single-family housing starts are down to a 692,000 annual rate, off 62 percent from their January 2006 peak. We didn't get here quickly. There were years of excesses. And this won't be resolved quickly.

Fourth, our work is not complete. Housing is the biggest risk to our economy; we are constantly monitoring the situation and examining approaches to address the problem. We are particularly focused on monitoring and continuously improving the execution of the HOPE NOW Alliance efforts, and working with Congress to complete work that is crucial to mortgage financing – creating a world-class regulator for Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and modernizing the programs of the FHA so it can assist more homeowners without imposing additional burden on taxpayers. The mission of Fannie and Freddie, the two largest public companies on the Post 200 list, is more critical now than ever. Together, they touch 80 percent of current mortgage originations, and a regulator on par with other financial regulators will bring confidence to all mortgage market participants.

I will elaborate on these points and start by putting the American housing market and the size of the problem in perspective. Although I am going to talk numbers and statistics, I know that beneath these numbers are many who are struggling and their situation is both real and difficult. As of the end of 2007, there were 55 million mortgages outstanding and 92 percent were being paid on time, every month. About 6 percent had missed one or more payments and the remaining 2 percent, about 1 million, were in the foreclosure process.

There were 1.5 million foreclosures started in all of 2007. Between 2001 and 2005, a time of solid U.S. economic growth and high home price appreciation, about 650,000 foreclosure starts occurred, likely due to financial setbacks and unforeseen life events. In this correction, we see additional foreclosures because some people bought more home than they could ever hope to afford. Many of these people are becoming renters again. Foreclosures are also up due to an increased number of speculators who bought homes on the assumption that housing prices would endlessly appreciate.

As housing prices decline some homeowners find they have negative equity in their homes. Negative equity is not a trigger for foreclosure and it doesn't alter your monthly payment. When you are in your home for the long run, to raise a family and be part of a community, prices will fluctuate throughout the years.

Homeowners who can afford their payment should honor their obligations --- and we know that the vast majority do. If someone can't afford their home and must move, it is painful. If someone walks away from a mortgage they can afford, it is irresponsible. In both these cases, however, there is little government or industry should do to prevent foreclosure.

We are focused on those homeowners who both want to stay in their home and, with a little flexibility, can afford to do so. We encouraged the formation of HOPE NOW in order to avoid a market failure. As mortgages have been securitized and those securities spread around the world, this complexity reduced the ability of investors to quickly respond to help struggling homeowners who both wanted to keep their homes and were financially able to do so. The Alliance has worked to overcome legal, technical and accounting complexities, and to speed up and simplify the refinancing and modification process so that more people can be helped.

Avoiding Preventable Foreclosures

HOPE NOW has made enormous progress. I have met with Alliance members, and am pleased that they are focused on continuously learning from their experience, adapting their practices and improving execution across the industry.

Subprime adjustable rate mortgages account for about 40 percent of all foreclosures, and we have focused much of our efforts on preventing foreclosures here, when possible. Our objective is not to maximize modifications; it is to minimize foreclosures for those who could afford the starter rate. Because lower interest rates have significantly reduced the reset problem, and because industry has acted to fast-track eligible borrowers, we are achieving our objective. Of the more than 400,000 subprime mortgage resets originally scheduled for the first quarter of 2008, only 553 loans that were current at reset have entered foreclosure. We will continue tracking that number closely to monitor progress.

Of course homeowners have responsibility as well. HOPE NOW members send over 200,000 letters a month to at-risk homeowners. While the response rate has increased from less than 3 percent to 20 percent, that still means that 80 percent of at-risk borrowers do not respond to offers of assistance. We can't help those who aren't willing to help themselves, and we must continue to urge struggling borrowers that if they haven't already, they need to reach out for help.

We will continue to look for additional tools to reach and help homeowners and to make existing programs work more smoothly.

Mortgage Finance

As you all know, the availability of mortgage finance has been an enormous challenge in recent months. Subprime loan originations are virtually non-existent today. The Administration has stepped up to that challenge by making FHA mortgages available to a broader group of borrowers. FHA originations are on pace to more than double in FY 2008. And this is occurring without significantly increasing taxpayer risk.

The new FHASecure program has refinanced over 200,000 borrowers into affordable mortgages in the past eight months and HUD is examining means of expanding access further. We are also working with Congress to complete work on FHA modernization legislation proposed by President Bush last year, which would increase the number of affordable FHA mortgages without imposing new costs on taxpayers. This legislation would reach another 250,000 potential FHA borrowers.

Fannie Mae and Freddie Mac are guaranteeing a greater share of mortgages than ever before. It's never been more critical that markets have confidence in how these companies are overseen and regulated. Given their size, complexity and important role, we need to ensure that they have a regulatory structure on par with other financial institutions. I believe there is a renewed commitment in the Congress to completing meaningful GSE reform legislation. The House has passed a bill that makes good progress towards this goal and I am pleased to see the Senate Banking Committee working hard to reach agreement on its version. The time has come to get this done.

Capital Markets

The excesses in the mortgage market were just one of numerous examples of excesses in the broader capital markets as investors reached for yield. This translated into undue leverage in financial instruments and institutions, which was not adequately recognized by market participants and regulators, and in increased complexity of financial products. It will also take time for markets to work through these excesses.

That being said, we are seeing signs of progress as capital and credit markets stabilize. The markets are considerably calmer now than they were in March. The de-leveraging and re-pricing of risk continue, as does the capital-raising that is so essential for our financial institutions to continue to support the broader economy.

Market liquidity and investor confidence are gradually improving, not across the board, but in several sectors including corporate bonds, leveraged loans and high yield debt. Credit default swap, or CDS, spreads on major bank, brokerage firm, and Fannie Mae and Freddie Mac debt have declined appreciably since March. Broader CDS indexes of investment grade and high yield bonds have fallen as well, and while spreads generally are still elevated and significant parts of the market, including securitized credit and interbank lending, are not functioning as normal, the trends indicate on-going improvement. Likewise, we are seeing issuance gradually grow in certain credit sectors.

We meet often with market participants and investors, to understand the remaining obstacles. They routinely report that time is the critical factor --- it simply takes time to reassess and re-price risk, and regain confidence. We should not expect to work through this process quickly and we should expect some bumps in the road ahead. But in my judgment we are closer to the end of the market turmoil than the beginning. Looking forward, I expect that financial markets will be driven less by the recent turmoil and more by broader economic conditions and, specifically, by the recovery of the housing sector.

President's Working Group Recommendations

Our highest priority these past several months has been to address the short term issues arising from market turmoil, so as to reduce its impact on the rest of the economy. At the same time, the President's Working Group on Financial Markets, the PWG, reviewed the causes of the recent turmoil and has made recommendations to address them.

Our review found that the turmoil was fueled by an abundant supply of easy credit, a decline in mortgage and other credit lending standards, increasingly complex and opaque financial instruments and structures, excessive leverage in our financial system, and investor and credit ratings agency issues.

The PWG presented specific near-term steps to address underlying weaknesses, steps that should be implemented by regulators, investors, financial institutions and credit ratings agencies. Among these, we identified improvements to be made in every step of the mortgage originate-to-distribute model, including stronger oversight of mortgage origination, national licensing standards for mortgage brokers, more disclosure from ratings agencies, improved due diligence by investors and safeguards in mortgage securitization.

We also outlined specific steps that credit rating agencies should take to provide information investors need to make more fully-informed decisions about risk. This will require reforming structured credit product rating processes and implementing changes suggested by the SEC review of conflict of interest issues. Regulators must also review how they encourage the use of ratings in rules and guidance.

In recent years, credit default swaps and over-the-counter (OTC) derivatives have become integral for hedging credit and default risk. Due to innovation and demand, we have seen tremendous expansion in the scale, diversity and impact of these instruments and markets. As trading volumes have surged, so has price volatility, but market infrastructure has not sufficiently evolved to support this expansion. We need a functional, well-designed industry cooperative that can meet the needs of the OTC derivatives markets in the years ahead. Such an industry cooperative must capture all significant processing events, and accommodate all major asset classes and product types over the entire lifecycle of trades. It must be operationally reliable and scalable, and enhance counterparty risk management through netting and collateral agreements by promoting portfolio reconciliation and accurate valuation of trades.

We are working to implement these PWG recommendations, and will report on our progress later this year.

Another issue that has been raised in recent weeks is investment bank access to the Federal Reserve's liquidity facilities. The Federal Reserve has made these available for a temporary period. Policymakers are considering the difficult issues associated with this extension of credit to non-banks.

Blueprint for a Modernized Financial Regulatory Structure

We are also focused on the long-term. In March, we released a Blueprint for financial regulatory reform to frame the needed discussion that should lead to modernizing our regulatory structure to keep pace with our financial system. The ultimate beneficiaries from improved financial market regulation are America's workers, families and businesses – both small and large. Our current regulatory system has largely evolved from early 20th century financial models; it's a system that has been patched together over time in response to the issues of the day. Regulators have adapted to keep pace with innovation, but they do so within a rigid structure that can not readily adapt as the financial services industry evolves.

The Blueprint included several immediate steps that we are already working to implement. One is a new executive order to clarify the PWG mission and increase the PWG membership to include additional financial regulators. Through this, we will formalize current coordination and communication. This will support the PWG's efforts to enhance financial market integrity and promote consumer and investor protection.

Second, we recommended creating a federal Mortgage Origination Commission. The MOC would establish minimum conduct and competency standards for mortgage originators and require information to evaluate each state's mortgage compliance standards for improved transparency in the securitization process. This Commission, coupled with the Federal Reserve's strong regulatory proposal regarding the Home Ownership and Equity Protection Act (HOEPA) rules, should go a long way in preventing recent issues from recurring.

Third, we recommended that the Federal Reserve and the SEC enter into a formalized information-sharing agreement. I am pleased to see this process underway.

Fourth, we recommended the creation of an office of insurance oversight housed at the Department of Treasury, and legislation has been introduced that is consistent with our recommendation.

Beyond these steps, the Blueprint's recommendations are intended to provoke thoughtful discussion that will ultimately lead to change. And we must begin that discussion now, because these changes are important to the long-term strength and effectiveness of our capital markets.

U.S. Economy and Stimulus Package

Although we are still working through housing and capital markets issues, and expect to be doing so for some time, we also expect to see a faster pace of economic growth before the end of the year. This is in part because the Administration and Congress worked together and worked quickly to pass the Economic Stimulus Act of 2008, a robust, broad-based and temporary package that will put money into our economy this year, when it's needed.

By the middle of July, about 130 million households will have received nearly $100 billion. These payments, along with the incentives for business investment included in the Act, will provide a boost to our economy in the coming months and add over 500,000 jobs this year that wouldn't have been created otherwise.

This fiscal stimulus will provide support to the economy as we weather the housing correction, capital markets turmoil and higher energy and food prices. Unemployment remains low and increased exports are partially offsetting other less positive factors. Overall, I believe we are on the right path to resolving market disruptions and building a stronger financial system. We are working through this period and our long term prospects remain strong. One thing is very clear to me – whatever our current difficulties, I wouldn't bet against the U.S. worker or the U.S. economy.

Conclusion

America's workers have benefited from six years of strong economic growth. We know that now, they are also feeling the current strain. The President and his entire economic team are vigilant. We are working to help Americans get through today's difficulties. And while we do this, I remind all of us that our economy is structurally sound, with long-term fundamentals that compare favorably to any other place in the world. Thank you.

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PRESS ROOM

May 16, 2008
HP-982

Week 3 Wrap-Up: Treasury Sent 15.575 Million Stimulus Payments This Week

This week the Treasury Department sent out 15.575 million economic stimulus payments to American households totaling $13.562 billion. So far, Treasury has sent out 45.463 million total economic stimulus payments totaling $40.793 billion.

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

Cumulative Total

Total Number of Payments: 45.463 million
Total Amount of Payments: $40.793 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28th and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

May 28, 2008
HP-983

-Updated-
Treasury Secretary Paulson to Travel to the Middle East

Treasury Secretary Henry M. Paulson, Jr. will travel to the Middle East this week to reiterate the United States commitment to open investment and discuss the economic benefits of nations around the world remaining open for investment. Paulson will visit Saudi Arabia, Qatar, and the United Arab Emirates.

Meetings will cover a broad range of regional and global economic and financial issues. Paulson will also discuss continued efforts in the region to stem the flow of money to terrorist groups and efforts to protect the global financial system from abuse, particularly by Iran.

Paulson will be in the region May 30-June 2. He will meet with government officials and representatives from the local business and investor community. In Abu Dhabi, Paulson will deliver a speech on the importance of open investment.

Who
Treasury Secretary Henry M. Paulson, Jr.

What
Speech

When
Monday, June 2, 12 p.m. (LOCAL TIME)

Where
Emirates Palace
Ballroom 1
Abu Dhabi

Note
Reporters can R.S.V.P. to rsvp@usuaebusiness.org

PRESS ROOM

May 19, 2008
HP-984

Under Secretary for International Affairs
David H. McCormick
Statement at the Annual Meeting of the European Bank
for Reconstruction and Development

Kiev, Ukraine - I am happy to be in Kiev for the 17th Annual General Meeting of the European Bank for Reconstruction and Development. On behalf of Secretary Paulson, I wish to thank our Ukrainian hosts, President Yushchenko and Prime Minister Tymoshenko, and the EBRD staff for all their work in organizing this meeting. I also join others in thanking President Lemierre for his dedicated service to the Bank.

In addition, I would like to extend a warm welcome to incoming EBRD President Thomas Mirow. With the region and the Bank at a crossroads, the EBRD requires thoughtful and effective leadership and the U.S. government is committed to working with you in a positive and constructive way.

Ukraine reflects much of the change that is occurring in the region. Since the EBRD met 10 years ago in Kiev, the Ukrainian people have seen their per capita incomes rise four-fold to over $3,000 as a result of economic reforms, and the country has made significant strides in building a democratic political system. To support these endeavours, the United States has provided Ukraine $3.9 billion in bilateral assistance. And we will continue to be a partner to Ukraine in the years ahead. In addition, Governors will approve an additional €135 million in shareholder funding out of the Bank's profit to support essential nuclear safety initiatives at Chernobyl.

Ukraine's progress illustrates the success in promoting the transition from command to market-driven economies. Since its inception, the Bank has committed almost $57 billion of financing. The EBRD finances over 300 projects per year that support private enterprises and foster infrastructure development. In taking on risks private investors would not accept on their own, the Bank has profited enormously, with cumulative realized profits of roughly €4 billion over the past three years. The number of blossoming market economies across the region, the growth of the private sector, and the institution's own financial vitality highlight the EBRD's achievements.

As a consequence of this success, the Bank is rapidly approaching an important decision about its future strategic direction. The United States believes that, with the leadership of a new president, it is timely to address some of the questions facing the EBRD. One of the first questions we should contemplate is the geographic scope of the EBRD's operations. We must consider this issue within the context of the Bank's mandate or, if shareholders desire, within the context of changing the mandate.

Turkey's application to be a country of operation makes this issue all the more pertinent. Turkey is a successful democracy in Europe that might benefit greatly from the EBRD's support and assistance. We will work with other shareholders to give Turkey's application a serious and thorough review in the coming months.

Discussion of the EBRD's geographic scope and mandate go to the core of the institution and these issues should be considered in an open and transparent way that involves all shareholders.

We must also recognize the remaining challenges in the EBRD's existing countries of operation that will not graduate in 2010. In particular, we support the Bank's shift of resources to provide greater assistance to those post-communist countries that have yet to reap the full benefits of transition.

- In the Western Balkans, the Bank must continue assisting the process of economic integration. And we look forward to welcoming Kosovo as an independent country of operation.
- In the Early Transition Countries, the challenges are significant, but we note the considerable expansion in the number of operations in recent years. We hope effective utilization of the new Shareholder Special Fund will create further opportunities for growth.
- In Russia, where we have supported much of the Bank's activities, we are increasingly concerned about whether some projects are consistent with the Bank's mandate. Going forward, we encourage the Bank to focus on those projects that will contribute the most to transition and lead to genuinely private ownership and control of assets in Russia.
- In all countries, we believe the EBRD should work with local micro, small and medium enterprises to foster an entrepreneur-based economy. It should do so while continuing to respect core operating principles of sound banking and transition impact, while supplementing rather than replacing financing from private investors or other public institutions.

Another important strategic issue is EBRD's net income allocation. The EBRD's success has resulted in a comfortable reserve position and net income numbers that private sector firms would envy. While we support the Governor's net income allocation resolution, we continue to believe that a small distribution would provide a strong and positive signal to investors of the opportunities for profit in this region. We expect that a dividend will be considered again next year.

The EBRD itself must also reflect best practices for governance and accountability. We look forward to working with others to review and improve the Bank's anti-corruption practices, both in the region and with respect to the Bank's own activities. We also welcome the Bank's new Environmental and Social Policy and continued improvements to its disclosure policies. And, we continue to believe the operations of the Board of Directors should be in line with best corporate practices.

The United States has been and remains a strong supporter of the EBRD. It is an effective institution – thanks largely to its highly dedicated and capable staff. We eagerly anticipate Mr. Mirow's leadership and vision of a Bank that retains a truly multilateral character, bringing together European and non-European shareholders. The United States will be an engaged and constructive partner with the Bank as it continues delivering results for the emerging economies of post-communist Eurasia.

PRESS ROOM

May 19, 2008
HP-985

Deputy Secretary Kimmitt to Hold Briefing on Palestine Investment Conference

Deputy Secretary Robert M. Kimmitt will hold an on-camera briefing Tuesday on the Palestine Investment Conference. Deputy Secretary Kimmitt is leading a Presidential Delegation to the conference, which will take place in Bethlehem May 21-23, 2008. More information on the Palestine Investment Conference is available at: http://www.pic-palestine.ps/.

Who
Robert M. Kimmitt, Deputy Secretary, Department of the Treasury
Robert Mosbacher, Jr., President and Chief Executive Officer, Overseas Private Investment Corporation
Larry W. Walther, Director, U.S. Trade and Development Agency
Walter Isaacson, President and Chief Executive Officer, Aspen Institute
Chair, U.S.-Palestinian Partnership
Dr. Ziad Asali, President and Founder, American Task Force on Palestine
Co-Chair, U.S.-Palestinian Partnership

What
Briefing on Palestine Investment Conference

When
Tuesday, May 20, 11:00 a.m. EDT

Where
Briefing Room, Washington Foreign Press Center
National Press Building
529 14th Street NW, Suite 800
Washington, D.C.

Note
RSVP to Christopher Teal at TealCL@state.gov.

PRESS ROOM

May 20, 2008
HP-986

Treasury Further Exposes Financial Empire of Colombian Trafficker

Washington - The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today added 12 companies to its list of Specially Designated Narcotics Traffickers. The companies designated today are controlled by individuals previously exposed as front persons for Juan Carlos Ramirez Abadia (a.k.a. Chupeta), who remains in Brazilian custody following his capture in August 2007.

"Although Chupeta has been captured, fragments of his organization remain intact in Colombia and Spain," said OFAC Director Adam J. Szubin. "OFAC is committed to exposing the last vestiges of Chupeta's financial empire."

Ramirez Abadia was named by OFAC as a Specially Designated Narcotics Trafficker in August 2000. He was indicted on federal drug trafficking charges in Colorado in 1994 and in the Eastern District of New York in 1995 and 2004. In 2004, Colombia's North Valle drug cartel was indicted in the District of Columbia under the federal Racketeer Influenced and Corrupt Organizations Act. Ramirez Abadia was identified in this U.S. indictment as one of the cartel's leaders. OFAC worked closely with the Drug Enforcement Administration and the U.S. Attorney's Office for the Eastern District of New York in the investigation leading up to today's action.

Each of the companies designated today is controlled by persons previously designated on August 15, 2007 because they are front persons for Ramirez Abadia. Ten of the companies designated today are located in Colombia. Among these companies is *A K Difusion S.A. Publicidad y Mercadeo*, a consulting company in Cali controlled by Alfonso Barrera Rios, Alvaro Enrique Barrera Rios, and Victoria Eugenia Barrera Rios. *Arturo Quinonez Ltda.*, which does business in Cali as *Restaurante Santa Colombia*, is controlled by Benedicto Quinones, a long-time accountant for Ramirez Abadia. *La Holanda S.A.* is a veterinary products company in Cali controlled by German Rosero Angulo, a key lieutenant for Ramirez Abadia.

Two of the companies designated today are located in Spain. *Valero y Asociados Gabinete Juridico S.L.* is a legal services company in Valencia controlled by Luis Hernan Valero Jimenez, a long-time attorney and front person for Ramirez Abadia. *Grupo Inversor Principe de Vergara S.L.* is a real estate company in Madrid controlled by one of Ramirez Abadia's closest associates, Mauricio Arturo Espitia Ortiz.

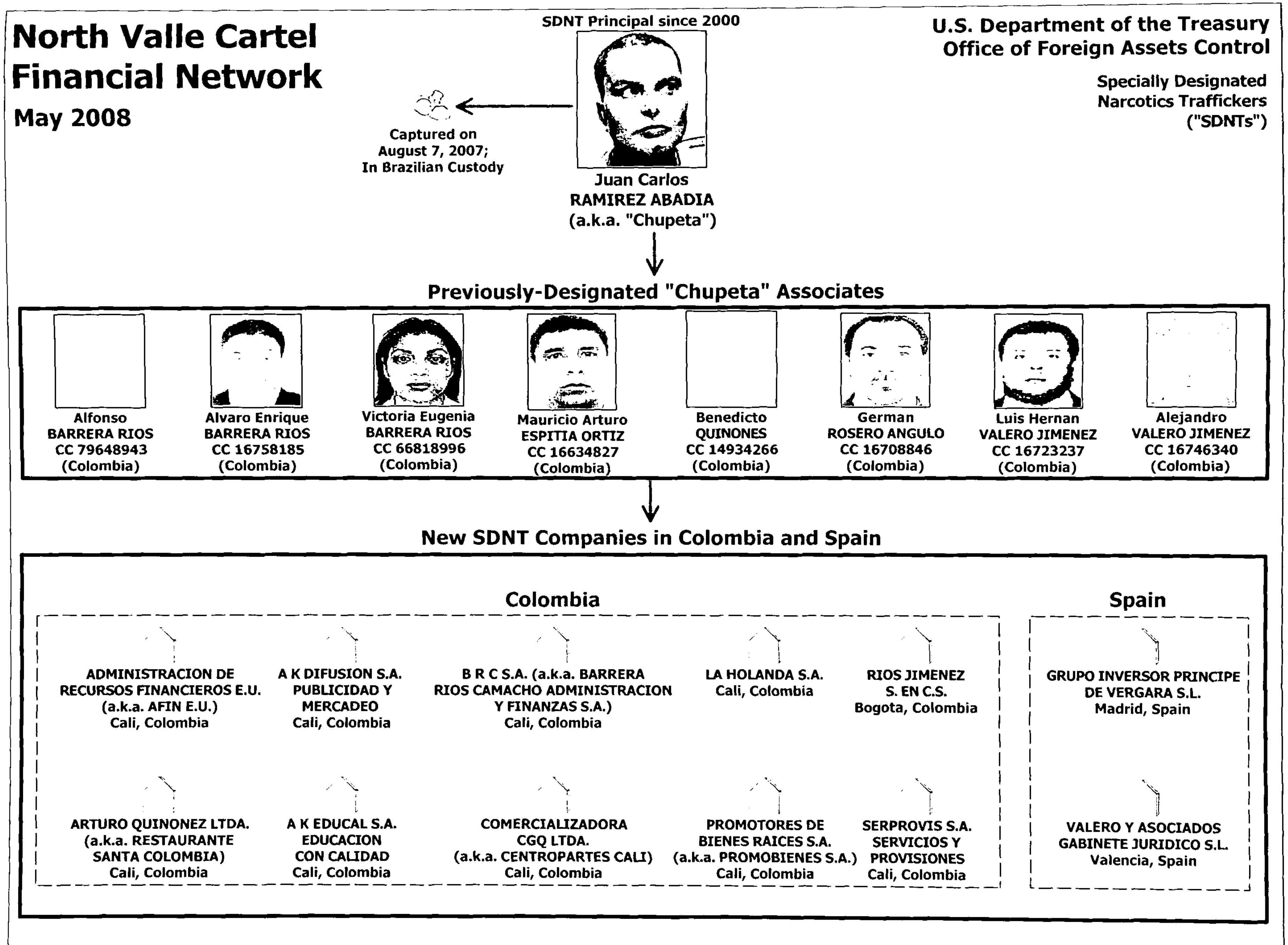
Today's announcement marks OFAC's fourth action since 2006 that targets the assets of Ramirez Abadia. In August 2006, OFAC designated the Colombian pharmaceutical distribution company *Disdrogas Ltda.* and Ramirez Abadia's parents, who were managing the company on his behalf. In August 2007 and October 2007, OFAC designated several of Ramirez Abadia's key lieutenants along with a variety of Colombian companies, including a *paso fino* horse breeding farm (*Criadero Santa Gertrudis S.A.*) and a major currency exchange and money remittance company (*Cambios y Capitales S.A.*).

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

REPORTS

- North Valle Cartel Financial Network, May 2008



North Valle Cartel
Financial Network
May 2008
U.S. Department of the Treasury
Office of Foreign Assets Control
Specially Designated
Narcotics Traffickers
("SDNTs")
SDNT Principal since 2000
Captured on
August 7, 2007;
In Brazilian Custody
Juan Carlos
RAMIREZ ABADIA
(a.k.a. "Chupeta")
Previously-Designated "Chupeta" Associates
Alfonso
BARRERA RIOS
CC 79648943
(Colombia)
Alvaro Enrique
BARRERA RIOS
CC 16758185
(Colombia)
Victoria Eugenia
BARRERA RIOS
CC 66818996
(Colombia)
Mauricio Arturo
ESPITIA ORTIZ
CC 16634827
(Colombia)
Benedicto
QUINONES
CC 14934266
(Colombia)
German
ROSERO ANGULO
CC 16708846
(Colombia)
Luis Hernan
VALERO JIMENEZ
CC 16723237
(Colombia)
Alejandro
VALERO JIMENEZ
CC 16746340
(Colombia)
New SDNT Companies in Colombia and Spain
Colombia
ADMINISTRACION DE
RECURSOS FINANCIEROS E.U.
(a.k.a. AFIN E.U.)
Cali, Colombia
A K DIFUSION S.A.
PUBLICIDAD Y
MERCADEO
Cali, Colombia
B R C S.A. (a.k.a. BARRERA
RIOS CAMACHO ADMINISTRACION
Y FINANZAS S.A.)
Cali, Colombia
LA HOLANDA S.A.
Cali, Colombia
RIOS JIMENEZ
S. EN C.S.
Bogota, Colombia
ARTURO QUINONEZ LTDA.
(a.k.a. RESTAURANTE
SANTA COLOMBIA)
Cali, Colombia
A K EDUCAL S.A.
EDUCACION
CON CALIDAD
Cali, Colombia
COMERCIALIZADORA
CGQ LTDA.
(a.k.a. CENTROPARTES CALI)
Cali, Colombia
PROMOTORES DE
BIENES RAICES S.A.
(a.k.a. PROMOBIENES S.A.)
Cali, Colombia
SERPROVIS S.A.
SERVICIOS Y
PROVISIONES
Cali, Colombia
Spain
GRUPO INVERSOR PRINCIPE
DE VERGARA S.L.
Madrid, Spain
VALERO Y ASOCIADOS
GABINETE JURIDICO S.L.
Valencia, Spain

May 20, 2008
HP-987

Prepared Statement By Deputy Secretary Kimmitt
at Foreign Press Center Briefing

Washington - I thank President Bush for the opportunity to lead the Presidential Delegation to Bethlehem to attend the Palestine Investment Conference. The conference will take place May 21-23, 2008 and will feature an outstanding program that will bring together government officials and business leaders from all over the world to collaborate on how best to join forces to revive the Palestinian economy.

I will be joined at the conference by several other distinguished members of the delegation:

- John Sullivan, Deputy Secretary of the Department of Commerce
- Robert Mosbacher, Jr., President and Chief Executive Officer, Overseas Private Investment Corporation
- Larry W. Walther, Director, U.S. Trade and Development Agency
- Walter Isaacson, President and Chief Executive Officer, Aspen Institute, Chair,
  U.S.-Palestinian Partnership
- Dr. Ziad Asali, President & Founder, American Task Force on Palestine, Co-Chair,
  U.S.-Palestinian Partnership

The Annapolis process envisioned several tracks. There is a political track, the goal of which is to create a Palestinian state living side-by-side in peace with Israel. Those political negotiations are underway. There is another track that calls for the fulfillment of Roadmap obligations.

And, there is also an economic track, which is the one we are trying to advance through the Palestine Investment Conference. It is very important--and President Bush and Secretary Rice have focused significantly on this--to improve economic prospects for the Palestinian people to give the political process a chance to unfold.

The Conference is intended to spur investor interest in the Palestinian Territories by showcasing business opportunities and projects ready to be launched. The Palestinian Authority will educate and inform investors about the local business climate and demonstrate the growing potential for profitable business in the Palestinian territories.

At this conference, we will showcase Palestinian Prime Minister Fayyad's excellent economic management, as demonstrated through his timely implementation of the Palestinian Reform and Development Plan. We will also highlight the U.S. Government's commitment to catalyzing private sector growth in the West Bank and underscore the link between economic prosperity and political stability.

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PRESS ROOM

May 20, 2008
HP-988

Paulson to Meet with Greek Minister of Economy and Finance

Washington - Treasury Secretary Henry M. Paulson, Jr. will welcome Greek Minister of Economy and Finance George Alogoskoufis to the U.S. Department of the Treasury on Wednesday, May 21. They will discuss global economic and financial developments, open investment, the effort to relieve Iraq debt and safeguarding the global financial system from abuse.

PRESS ROOM

May 20, 2008
HP-989

Paulson Statement on Senate Housing Legislation

Washington- *Secretary Henry M. Paulson, Jr. made the following statement today upon the passage of housing legislation by the Senate Committee on Banking, Housing and Urban Affairs, which included reform of the housing government sponsored enterprises.*

"We have long called for strong, comprehensive GSE reform. This is the most significant component of the legislation passed today, creating a world class financial regulator with appropriate authorities to oversee the GSEs' operations. Fannie Mae and Freddie Mac are guaranteeing a greater share of mortgages than ever before. It's never been more critical that markets have confidence in how these companies are overseen and regulated.

"As we all know, one element critical to reaching the end of this correction will be the cost of mortgage finance - the price of a mortgage will impact how many buyers come into the market and when they do so. Investor confidence in the secondary mortgage market is vital to the continued flow of affordable mortgage capital for American homebuyers. And a strengthened regulator for the two largest sources of mortgage finance is vital to the confidence of all mortgage market participants and regulators."

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PRESS ROOM

May 20, 2008
hp-990

PWG Private Sector Committee Selects New Leadership

Washington- The private sector Investors' Committee on Private Pools of Capital, established by the President's Working Group on Financial Markets, announced today the selection of Gary Bruebaker, Chief Investment Officer of the Washington State Investment Board, to serve as the Committee Chair. Russell Read, the current Chair, will step down from the Committee upon his resignation from the California Public Employees Retirement System on June 30.

"This Committee plays an important role in strengthening market discipline through improved investor practices. Gary's participation from inception, coupled with his broad experience as a public pension plan sponsor, will serve the committee well," said Treasury Assistant Secretary for Financial Markets Anthony Ryan. "I am also grateful to Russell Read for his contributions and leadership and wish him well with his new venture."

The PWG created the Investors' Committee and a separate Asset Managers' Committee in September 2007 to collaborate on issues surrounding the private pools of capital industry and to develop a set of best practices for their respective groups of stakeholders. The work of the two groups was based on the PWG's Principles and Guidelines Regarding Private Pools of Capital issued in February 2007, which sought to enhance investor protections and systemic risk safeguards. The best practices, released in April 2008, may be viewed at the committees' website, http://www.amaicmte.org.

Bruebaker has served the Washington State Investment Board since 2001, where he received the award for Public Plan Sponsor of the Year and was selected for the 2006 Award for Excellence in Investment Management by Institutional Investor. The board is one of the largest in the country and manages more than $81.9 billion in 38 separate funds. Among other investment responsibilities, the WSIB manages the financial future of more than 400,000 public servants through the management of defined benefit and defined contribution retirement plans.

Sandra Urie of Cambridge Associates will continue to serve as the Committee Vice-Chair.

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PRESS ROOM

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September 25, 2007
HP-575

PWG Announces Private Sector Groups to Address Market Issues for Private Pools of Capital

Washington - The President's Working Group on Financial Markets announced the chairs, members and mission statements for two private sector committees, one comprised of investors and the other comprised of asset managers. These private sector committees will assess and foster a private sector dialogue on issues of significance to their industry and the market. The first task of the committees will be to develop best practices using the PWG's principles-based guidance released in February. The committees will create and publicly release the best practices so market participants may enhance investor protection and systemic risk safeguards consistent with the PWG principles and guidelines.

"These groups are drawn from among the industry's finest in their respective areas," said Treasury Secretary and PWG Chairman Henry M. Paulson, Jr. "The market will benefit if experienced participants develop and implement best practices."

The President's Working Group is encouraging market participants to move beyond the status quo as they work to strengthen market discipline. The committees represent a milestone toward a more competitive U.S. marketplace with the world's highest standards for protecting investors and safeguarding against systemic risks.

Russell Read, Chief Investment Officer of the California Public Employees Retirement System, will serve as the chair of the Investors' Committee. Eric Mindich, CEO of Eton Park Capital Management, will serve as the chair of the Asset Managers' Committee.

The PWG and the committee chairmen sought a broad range of experienced members, listed below, to participate on the Committees. The Investors' Committee includes representatives from labor organizations, endowments, foundations, corporate and public pension funds, investment consultants, and non-U.S. investors. The Asset Managers' Committee includes representatives from a diverse group of hedge fund managers representing many different strategies.

The groups will make the best practices available for public comment before they are finalized.

The PWG first discussed the establishment of these groups in June, with the announcement of the second stage of Treasury's capital markets competitiveness plan. The PWG created the groups to complement the work underway between the global regulators and the financial institutions they regulate that serve as creditors, lenders and counterparties to these private pools of capital.

Asset Managers' Committee	Investors' Committee
Mission Statement	Mission Statement
Eric Mindich, Chair Eton Park Capital Management	**Russell Read, Chair** CalPERS
Anne Casscells	**Sandra Urie, Vice-Chair**

AETOS Capital, LLC	Cambridge Associates, LLC
James S. Chanos Kynikos Associates LP	**Gary Bruebaker** Washington State Investment Board
Anne Dinning D. E. Shaw & Co., L.P.	**Myra Drucker** Commonfund
Jonathon S. Jacobson Highfields Capital Management	**Tom Dunn** New Holland Capital
Marc Lasry Avenue Capital Group	**Peter Gilbert** Lehigh University Endowment Fund
Edward A. Mulé Silver Point Capital	**Andrew Golden** Princeton University Investment Company
Daniel S. Och Och-Ziff Capital Management	**George Main** Diversified Global Asset Management Corporation
Daniel H. Stern Reservoir Capital Group	**Ellen Shuman** Carnegie Corporation of New York
William Von Mueffling Cantillon Capital	**Damon Silvers** AFL-CIO
Michael Vranos Ellington Management Group LLC	**Greg Williamson** BP America Inc.

PRESS ROOM

May 20, 2008
hp-991

Statement by Secretary Henry M. Paulson, Jr. on Resignation of Jan Boyer

Washington, DC-- Treasury Secretary Henry M. Paulson, Jr. issued a statement today on the departure of the U.S. Alternate Executive Director of the Inter-American Development Bank Jan E. Boyer:

"I greatly appreciate Jan Boyer's distinguished service to the Bush Administration and the Board of Executive Directors of the Inter-American Development Bank. Jan worked with great commitment and energy to expand the presence and improve the results of the IDB while also undertaking his fiduciary duties with the utmost integrity. Jan is leaving the Administration to pursue opportunities in the private sector and I wish him and his family well," said Paulson.

Boyer assumed his duties on October 18, 2005, bringing considerable experience in developed and emerging markets. His outstanding work at the IDB ranged from supporting entrepreneurship to the development of infrastructure. In 2008, he took on the duties of Executive Director during the lead up to the 2008 IDB Annual Meeting hosted by the United States in Miami.

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REPORTS

- Resignation Letter

May 20, 2008

President George W. Bush
The White House
Washington, D.C.

Dear Mr. President:

I am writing to submit my resignation as United States Alternate Executive Director of the Inter-American Development Bank (IDB) effective June 6th, 2008.

It has been a unique and great honor to serve our Nation as a senior member of your Administration. I want to thank you for this opportunity. My current service at the IDB and prior service at the Overseas Private Investment Corporation add up to four years to promote your international economic policies.

My goal in coming to government was simple. Bring my international experience as an entrepreneur to the public sector for the benefit of economic development in the US and abroad. Once here, I also chose to focus on the very important issues of accountability, transparency and the responsible use of public resources.

As I promised during my confirmation hearing before the US Senate, I intend to return to the private sector and from there continue to pursue these goals. Solange, Sophia, Francesca and I wish you and your recently expanded family all the best in the future.

Sincerely,

Jan E. Boyer

Jan E. Boyer

cc: The Honorable
Henry M. Paulson, Jr.
Secretary of the Treasury

PRESS ROOM

May 21, 2008
HP-992

**Remarks by Special Envoy for China and the Strategic Economic Dialogue
Alan Holmer
on the U.S.-China Strategic Economic Dialogue:
Sustaining Economic Growth
at Wuhan University**

Wuhan, China - Thank you President Liu and Vice President Zhou for your invitation and for your hospitality. It is a privilege and honor to be with you today at Wuhan University.

Before I begin, I want to extend my condolences to those injured and to the families of the victims of the earthquake in Sichuan Province. I am particularly saddened by the number of students and children affected by this tragedy. The thoughts and prayers of the American people are with the Chinese people at this time, especially those directly affected. Both the American people and the United States government have provided assistance and remain ready to help in any way possible.

I would also like to recognize Wendy Lyle, United States Consul General for the newly established U.S. Consulate General here in Wuhan. We are proud to have this official presence in Wuhan and believe it will strengthen the U.S.-China relationship in the years and decades to come.

When I became Special Envoy for China and the Strategic Economic Dialogue in February of 2007, Vice Premier Wu Yi, a native of your great city, encouraged me to visit the parts of China beyond Beijing and Shanghai. I have happily followed her advice. In the past 15 months, I have been privileged to visit Shenyang, Qinghai, Xi'an, Chengdu, Guangzhou, Shenzhen, Hong Kong, and Ningbo (just yesterday). My trips have included visits to rural villages to see both the opportunities and the challenges you face in promoting balanced, harmonious growth.

I've learned that China is a country of contrasts as it develops rapidly: contrasts between eastern, central and western regions; urban and rural areas; contrasts between one province and another. There are also large contrasts within provinces, and your province Hubei is no exception.

Hubei Province and Wuhan

I have been impressed by Wuhan's strategic geographic location in China and your strong traditions of trade and intellectual advancement that date back to the Han Dynasty. I learned that nearly 2,000 years ago one of the critical battles of the Romance of the Three Kingdoms occurred right here in this area. You are both an ancient and a modern city, a city rooted in tradition but at the heart of an economically rising central China.

An increasing amount of China's – and the world's – economy passes through Wuhan. Your city is a transport nexus for central China, located where the mighty Han and Yangtze Rivers meet, and is critically important for shipping, rail, and highways – as Wuhan sits at the crossroads of one of China's main North-to-South and East-to-West national highways.

I applaud your country's and your province's initiative to promote the rise of Central China. Vice Premier Wang Qishan's speech here in Wuhan less than one month ago was impressive, as he encouraged your region to speed reform and opening. Your efforts to promote the development of Central China through increased trade and investment are significant and worthwhile.

I am here today, in part, to tell you that my colleagues and I in the United States government believe that closer U.S.-China economic cooperation benefits the development of all regions of China and the United States, not just our political and economic centers. Broad-based, high-quality economic growth that benefits the people of our countries is of utmost importance to all of us.

U.S.-China Economic Relations: A Paradox of Optimism and Apprehension

As part of my responsibilities, I also travel widely throughout the United States and meet with business, economic, and academic groups, along with government leaders at all levels. I explain the consequential nature and positive impact of our economic relationship, and the importance of the U.S.-China Strategic Economic Dialogue.

We have a deep reservoir of good will between the people of our two countries. And yet while our growing economic interdependence was once a source of stability in our bilateral relations, it is now increasingly also a source of tension, in both of our countries.

A 2008 survey that simultaneously conducted public polling both here in China and in the United States characterized these mutual perceptions between our countries' two peoples as a "paradox of hope and fear." This survey, published by an influential group of Chinese Americans called the Committee of 100, shows that, on the one hand, a majority of citizens in the United States and China generally hold positive views of each other and broadly recognize the importance of U.S.-China relations and our increasing economic interdependence. On the other hand, a strong majority of Americans view China's growing economic and military power as a serious or potential threat, and nearly half of the Chinese feel that the United States is trying to prevent their country from becoming a great world power.

Both sides recognize that our most common interests lie in trade. Among Americans, trade is regarded as the most likely area of shared interests, yet it also ranks as the most likely source of conflict. There it is again, a mix of hope and fear. These concerns are straining the domestic consensus in both the United States and China on the benefits of economic engagement, leading to the rise of economic nationalism and isolationism among some sectors in both our nations. These sentiments may constrain leaders from adopting policies that are in the long-term interests of the citizens and economies of your country and mine.

Recognizing that this paradox of optimism and apprehension is real, I have come to Wuhan to speak with you about a reality that is central to the well-being of the people of our two great nations: that is, free trade and investment between our two countries are in our fundamental mutual interests. One only needs to consider how far our relationship has developed since we normalized relations nearly thirty years ago to appreciate the rapid growth of our mutual benefit.

I will also describe three essential steps we must take together as we look to the future that will sustain and enhance our mutual, growing economic prosperity.

China and the United States: Beneficiaries of Free Trade, Open Markets, and Foreign Direct Investment

I have been deeply involved with international economic issues for over 25 years. One of the clearest lessons I have learned is that those countries that open themselves to competition, reform their economies, and welcome foreign investment benefit their citizens greatly. Direct investment in another country, such as manufacturing plants or service companies, is the ultimate vote of confidence in that country's economy.

Such openness is the most reliable path to economic growth and reduction of poverty: it provides better jobs and opportunities, improved living standards, greater consumer choice and lower prices and inflation. Openness is not a zero-sum game; it enhances efficiency, productivity, and competitiveness.

Benefits for China

China's reform and opening over the past three decades have arguably produced the most dramatic economic transformation in world history. China has transformed itself from a poor, mostly agrarian, and almost completely closed economy, into an integral driver of the global economy. In the process, China has achieved economic growth of nearly 10 percent per year that has lifted hundreds of millions of Chinese citizens out of poverty. In 2007, China became the world's second-largest exporter, and its trade volume for the first time exceeded the combined trade of Japan and South Korea. Free trade and foreign direct investment have been central to China's extraordinary economic achievements.

While China has benefited greatly from inward investment over the past three decades, it is now becoming a large supplier of capital to other nations as well. According to China's Ministry of Commerce, China's total overseas investment in 2007 was over $18 billion. Chinese investors visit the United States with increasing regularity to consider foreign investments; we welcome their investments and their confidence in the American economy.

Benefits for the United States

U.S. exports to the world now account for 12 percent of our GDP, the highest level in our history. Exports supplied more than 40 percent of U.S. economic growth in 2007. In the United States, the Peterson Institute for International Economics estimates that the integration of the global economy generates an economic gain of $1 trillion to the U.S. economy every year.

With respect to China specifically, China is now the United States' third largest export market, with our exports including goods ranging from aircraft, to soybeans to electrical machinery. In the past decade, our exports to China have increased six times faster than our exports to the rest of the world. A recent study by the U.S.-China Business Council found that over 90 percent of U.S. congressional districts had triple-digit export growth to China in the past 8 years.

In a speech in Shanghai two weeks ago, my colleague David McCormick, Treasury Undersecretary for International Affairs, noted that foreign direct investment flows into the United States were $204 billion in 2007, nearly double the level of a decade earlier. Foreign-owned firms in the United States directly employ over 5 million Americans – 4.5 percent of all private sector employment. These are good jobs with good wages, paying more than 25 percent higher compensation on average than other private sector jobs. Foreign-owned firms contribute almost six percent of U.S. output, 14 percent of U.S. R&D spending, and 19 percent of U.S. exports.

Yet the Consensus for Open Economies is Eroding

Despite these compelling facts, the longstanding consensus in support of open economies shows signs of eroding, in both our countries.

Any dynamic economy that is constantly creating new, higher-value jobs inevitably faces factory closings and job losses that are real and painful. The benefits of free trade are often spread across an entire country, while the lost jobs are more focused and immediately visible. But succumbing to the temptation to make trade and foreign investment a scapegoat only breeds support for isolationist policies that will make us worse off, reducing the losses of the present by sacrificing the job opportunities and higher standards of living of the future.

Some Specific Concerns

With respect to investment, we often hear concerns from China about the U.S. investment review process and whether the United States truly welcomes Chinese investment. U.S. legal authority in this area is narrowly targeted to address acquisitions that raise genuine national security concerns, not broader economic interests or industrial policy factors. Last year, for instance, less than 10 percent of all foreign direct investments were reviewed by the Committee on Foreign Investment in the United States (CFIUS), and the vast majority of those were resolved without controversy, including those by state-owned enterprises.

Last month, the Treasury Department issued proposed regulations on investment to clarify and improve our existing review process, reinforce strong open investment principles and procedural protections for foreign investors, and ensure a more timely and efficient review process. We welcome your comment on these proposed regulations.

The United States is strongly committed to maintaining an open investment climate, including for investments from China.

In addition, Chinese officials have expressed frustration that the United States has filed cases in the World Trade Organization (WTO) against Chinese practices. But we should not regard such actions as a failure of our bilateral economic relationship. Rather, the WTO provides neutral, legal mechanisms to address issues that cannot be resolved through negotiation. As U.S. Trade Representative Susan Schwab has said, "WTO dispute settlement is designed to prevent trade wars rather than fuel them."

From American companies investing in China, we often hear concerns that China's interest in foreign investment is no longer as robust as before, that foreign investment regulations are opaque and seem to be designed to favor Chinese "national champions." These concerns include implementation of the new Anti-Monopoly Law; protection of specific Chinese competitors rather than competition in general; technical standards that appear to be discriminatory; treatment of foreign firms more harshly than Chinese firms; and other steps inconsistent with China's impressive move toward market-based economic principles.

The Role of the SED

Fortunately, the Strategic Economic Dialogue provides a forum and a mechanism to address these and other issues. At our most recent Cabinet-level meeting in December 2007, the United States and China agreed to create a high-level exchange on investment and to intensify ongoing discussions about a Bilateral Investment Treaty to provide meaningful investor protections.

Each twice-yearly, Cabinet-level SED meeting presents multiple opportunities to share perspectives and clarify misunderstandings. We can never do too much communicating.

The "Three Essentials": Keys to the Future of U.S.-China Economic Cooperation

I have been privileged to support and participate in our semi-annual discussions between the economic leaders of our two countries, led on the U.S. side by Secretary of the Treasury Henry Paulson and on the Chinese side by Vice Premier Wang Qishan (formerly by Vice Premier Wu Yi). Through the SED, we are strengthening the foundations of the U.S.-China economic relationship, and we are pursuing solutions to the big, strategic economic issues that face our two countries.

As we do so, there are essential behaviors we must strengthen if we are to continue to enhance our economic strength and mutual interests. I will name three.

Essential Number One: Keep Relationship on an Even Keel

When President Bush and President Hu Jintao established the SED in 2006, they envisioned a forum and a mechanism to allow both governments to communicate at the highest levels and with one voice on issues of critical, long-term importance to ensure bilateral economic stability and prosperity. And that's what direct engagement does: it keeps the relationship on an even keel by lessening miscommunication and dispelling misperceptions so common in the history of the U.S.-China relationship.

This kind of enhanced dialogue and engagement means we must confront problems frankly and honestly – and often rapidly. One example is product safety.

In the spring of 2007, many Americans were alarmed about a wave of reports of unsafe food and product imports from China. The credibility of the "China brand" in the United States was at risk. Fortunately, at the Cabinet-level SED meetings in May, 2007, our governments were able to begin intensive work together to address this problem. And at the SED meetings in December 2007, we achieved two landmark agreements on food, feed, drugs, and medical devices.

While there have been bumps along the way, those agreements and related interactions have fostered a culture of collaboration. But this is just the beginning. These issues are deep-seated, complicated, and will not be resolved immediately; this is why we need to continue to work together to build science-based quality into each stage of the manufacturing process. Our efforts will be further enhanced by progress on other related and fundamental issues, such as rule of law, transparency, and intellectual property protection.

In fact, the effectiveness with which the Chinese government continues to manage these safety issues will have long-term implications for U.S.-China trade relations, the integration of China into the global trading system, and the sustainability of China's economic growth trajectory.

(2) Essential Number Two: Address Forward-Looking, Strategic Areas of Critical Mutual Interest

Looking to the future of our relationship, we cannot afford to succumb to the problem of "short-termism" where we primarily consider the issues just in front of our eyes. We also need visionary leaders, supported by understanding citizens, who look out at the horizon, identify the transformational issues of our times, and address them now with policies and actions that will help us realize a sustainable and even more prosperous future in the next generation and beyond. Through the SED mechanism, the leaders of our two countries work diligently to identify and address those critical issues -- including the need to address our respective macroeconomic imbalances, financial sector liberalization and currency reform, innovation and intellectual property rights, investment, transportation, rule of law, and transparency, among other issues.

One example I would like to elaborate upon is our joint work on energy security and environmental cooperation. The United States and China are shaping, and being shaped by, global energy and environmental trends that have strong economic consequences. Our countries are the world's largest energy consumers and the largest emitters of greenhouse gases.

We share the challenge of achieving balanced economic growth along with energy security and environmental sustainability. It will take resourcefulness, creativity, determination and a long-term commitment to achieve the results we seek.

At last December's SED meeting, the United States and China announced a ten-year cooperative effort on energy and environmental issues. Our ten-year energy and environment cooperative framework is part of that commitment. We will focus on shared objectives, including energy security, lower greenhouse gas emissions, clean water, clean air, clean and efficient transportation, and the preservation of wild and beautiful places.

This effort will challenge our governments, industries, universities, research institutions, thought leaders, and non-governmental organizations to find answers to these and many other questions: How do we reduce dependency on oil and increase energy security? How do we better preserve the natural environment and prevent greenhouse gas release due to deforestation? How do we meet our energy goals? How do we ensure that our water is clean and safe?

These questions may be answered differently in the United States than in China. Yet our approaches to finding answers may be similar – to implement proven, effective policies, to educate individuals to make environmentally sound decisions, to ensure that companies follow regulations designed to protect human health. Other solutions will require technological breakthroughs and making existing or new technology affordable by reducing market access barriers.

Since December, we have been hard at work developing action plans for joint projects that will build upon and accelerate existing efforts. We are placing a priority on shared goals, such as reducing dependency on oil. We are defining specific energy targets, such as increasing vehicle fleet fuel efficiency and creating incentives for the development and use of alternative fuels. We want to build clean and efficient transportation systems and protect the wetlands and forests of our two countries. These action plans will help each country identify policy solutions to improve implementation of existing regulations and incentives, and challenge us to develop even more innovative approaches and answers.

(3) Essential Number Three: Develop a Culture of Collaboration and Trust

The U.S.-China economic relationship is complex and managing complexity is daunting. It begins with speaking to the right people, at the right time, on the right issues, and in the right way. The Strategic Economic Dialogue – as a new and leading institution in U.S.-China relations – has created these useful channels among policymakers in Washington and Beijing. Our approach engages multiple and diverse government officials in both countries to facilitate more inclusive interactions. It breaks down classic bureaucratic stove-pipes that hinder effective communication and impede results.

And, as important as any contribution, it helps develop and expand trust between leaders. Trust among leaders is a strategic asset in any economic relationship. Views are respected, ideas are shared candidly, and mutual interests are pursued.

Just as there have been challenges along the way since normalization of U.S.-China relations in 1979, there will undoubtedly be challenges in the decades to come. Eliminating challenge is not the primary goal – that would be impossible – rather, the goal is to create deeper foundations of trust and communication to better manage those challenges.

The deepening of trust and communication is not solely the role of government leaders. It is also the responsibility of businesspersons, workers, farmers, professors, students, and others. And in August, thousands of athletes from over 100 countries, including athletes from the United States and China, will have the opportunity to deepen communication and trust when they participate in the 2008 Beijing Olympics.

Information about each other, accessible through the internet, is exploding. But there is an understanding deficit. We do not know each other as well as we should. The best way to close this understanding gap is through strengthening the exchange of people and our interaction. That's another major benefit of a U.S. Consulate General now here in Wuhan.

We will also advance our understanding and communication because of the new U.S.-China Tourism Agreement and Civil Aviation Agreement, signed at the SED meetings in May and December, 2007. New nonstop flights between Atlanta and Shanghai, San Francisco and Guangzhou, Philadelphia and Beijing, and the other flights that follow, will strengthen the bonds between us.

These interactions provide the opportunity for Americans to underscore that we welcome the rise of a confident, peaceful and prosperous China. A weak and insecure China is not in America's economic or security interests.

Conclusion

One of the most important economic questions of this century is whether we get the economic relationship between our two countries "right." That means stable, growing, mutually beneficial, and supportive bilateral relations. If you question that statement, consider two different visions of the future of the U.S.-China relationship.

The first is a vision that is dark and problematic. It's a future of a superpower and a rising power on a collision course, increasingly suspicious of the other's intentions, scrambling in a zero-sum competition for resources and influence -- oblivious to the possibilities for cooperation that serve our mutual interest. It's a future in which we see each other through caricatures. This future portends a fragile relationship, which is cracked easily by unavoidable misunderstanding and accident.

The second vision is one in which our ability to work together matches the degree to which our economies are already so deeply integrated. In this future, I see the leaders in each nation communicating well, growing in their trust for one another, working through misunderstandings and crises, and expanding -- where possible -- common interests, while recognizing distinct national goals. In this vision, I also see people in each nation that recognize our commonalities -- that we mutually benefit from trade, investment, and all forms of communication and exchange.

It's this second vision that we are promoting through the Strategic Economic Dialogue. It's a vision that I hope you share, of a strong and lasting relationship we will continue to develop, expand, and help flourish.

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PRESS ROOM

May 21, 2008
HP-993

Remarks by Treasury Deputy Secretary Robert M. Kimmitt at the Palestine Investment Conference

Bethlehem-- On behalf of the U.S. delegation, I would like to thank President Abbas and Prime Minister Fayyad for inviting us to this conference. We also would like to express our appreciation to the chair of the Steering Committee, National Economy Minister Hassouneh, Conference CEO Hassan Abu Libdeh, and the many conference sponsors and partners who worked hard to put together such an historic, groundbreaking event.

I was in Jerusalem last November when the idea for this conference was just being explored. It is very exciting to return now, and gratifying to see such a large and diverse crowd of business representatives from so many sectors and regions. This evening, our delegation will have the pleasure of dining with a few of the Palestinian private sector leaders with whom I met in Jerusalem last fall -- and we look forward to talking with them and others about the progress that has been made over the last six months and the new business opportunities that this conference is certain to generate.

The Annapolis process, initiated last November by President Bush, comprises several tracks being pursued concurrently, as Israel and the Palestinians work together toward a peace agreement. A crucial track--and one all of us attending this conference can influence positively--involves improving the situation on the ground in the Palestinian Territories. Here, Tony Blair's efforts deserve particular mention. His commitment to supporting and publicizing this conference, and to advancing several high profile projects, reflects a deep understanding of the link between peace and economic opportunity.

President Abbas and Prime Minister Fayyad understand this crucial connection as well. Often when U.S. Treasury officials have the opportunity to speak at an investment or business conference, our remarks focus on the benefits of investment flows and urge public sector leaders to establish open investment regimes. Fortunately, we do not have to convince the Palestinian leadership of the importance of the private sector and the need to open their markets to the world economy.

I have had the honor of meeting Prime Minister Fayyad during his trips to Washington, D.C., and can attest to his personal commitment to creating an economy underpinned by a robust private sector. Even those of you who do not know him personally can find ample evidence of the Prime Minister's free market credentials in his well-crafted Palestinian Reform and Development Plan. Appropriately, the plan focuses on improving governance, particularly as it pertains to public financial management, the security services, and the justice system.

We all know that there are some unique challenges to doing business in the Palestinian Territories. This is where close cooperation between government and industry can make a real difference.

The United States already has a robust bilateral economic and development assistance program in the Palestinian Territories, and this program will continue to grow. In 2008, we plan to provide $550 million to the Palestinians for activities to support economic growth and good governance, provide food assistance, improve education, and increase access to healthcare and water. We have already transferred $150 million of this assistance as budget support to the Palestinian Authority. We have also pledged to provide the UN Refugee and Works Agency with $148 million and are requesting significant levels of assistance from Congress for next year.

Much of this funding will be channeled through the U.S. Agency for International Development to help encourage private sector development. Agribusiness partnerships, microfinance assistance, modernizing financial institutions, and a new trade facilitation program are only a few of the several important initiatives that USAID is undertaking. Over the past fifteen years the United States has provided $1.9 billion in such assistance to the Palestinians through USAID alone.

However, our mid- to long-term goal is to catalyze private investment flows, which are the lifeblood of broad-based, sustainable growth. We have several new initiatives with this objective in mind.

First, the Overseas Private Investment Corporation, OPIC, in partnership with the World Bank's International Finance Corporation, the United Kingdom's Department for International Development, the Palestine Investment Fund, and the Bank of Palestine, is creating a $500 million mortgage lending facility in the West Bank. This facility will inject necessary liquidity into the Palestinian mortgage industry and convey the economic benefits of home ownership to many who would have been unable to realize them otherwise. The mortgage facility complements ongoing Palestinian efforts to develop much-needed affordable housing units in the West Bank over the next five years. And, during this conference, OPIC, under the leadership of President Rob Mosbacher and in conjunction with the National Insurance Company, will announce an exciting new political risk insurance program.

Second, under the leadership of Deputy Secretary John Sullivan, the U.S. Department of Commerce Commercial Service is providing ongoing support to the Palestinian-American Chamber of Commerce to promote Palestinian business linkages. The Commercial Service is also facilitating multilink digital videoconferences among Palestinian, Israeli, and U.S. businesses and recently organized a trade finance conference in Ramallah that attracted over two hundred Palestinian businesspeople. Additionally, at this conference, the U.S. Trade and Development Agency, under the leadership of Director Larry Walther, is signing a grant agreement with a Palestinian private sector company to spur development of a next generation WiMax internet accessibility network in ten cities in the West Bank.

Third is the U.S.-Palestinian Public Private Partnership, which is led by my friend and colleague Walter Isaacson, who heads the Aspen Institute. The Partnership, which is co-led by Dr. Ziad Asali, was launched last December by President Bush and Secretary Rice and has been instrumental in bringing this conference to fruition. It is also developing quick-impact projects to promote job creation in the West Bank, including establishing an Arabic-language call center and five youth development and resource centers designed to prepare youth for full and productive participation in the Palestinian society and economy.

Finally, the Middle East Investment Initiative, chaired by Berl Bernhard, is a Palestinian, American, and European-funded $228 million loan guarantee facility. It offers financial institutions substantial loan guarantees as an incentive to lend to small and medium Palestinian enterprises. Such enterprises now comprise up to 90 percent of registered Palestinian businesses, but they face many challenges, including a lack of access to credit. These small and medium sized businesses, if properly stimulated, could create tens of thousands of sustainable jobs--a critical requirement for fostering stability. OPIC and the Palestine Investment Fund are providing the loan guarantees to commercial banks, microfinance institutions, and non-governmental organizations who participate in the Investment Initiative.

Before concluding, I also want to commend Jake Walles – our Consul General in Jerusalem – and his team. It is they who have done the tremendous work needed to coordinate and implement all these different components of U.S. support, thereby ensuring that our government's efforts provide maximum benefit to the Palestinian people. To assist in this effort going forward, I am pleased to announce that the U.S. Treasury is assigning a senior officer, Ben Davis, to be a part of the strong consulate team in Jerusalem.

Today's conference is another important step toward developing economic self-sufficiency in the Palestinian Territories. Our task at this conference and in the weeks and months ahead is to work together to combine and leverage the expertise and business experience of those in this room with the assistance and political support of our governments. By building a vibrant economy led by the private sector in the Palestinian Territories, we will help improve the lives of the Palestinian people, enhance stability, and bolster prospects for lasting peace. There is no higher calling or more important goal for our common efforts.

Thank you for your kind attention.

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PRESS ROOM

May 15, 2008
HP-994

**Statement by Deputy Assistant Secretary Kenneth Peel
At the 2008 African Development Bank Annual Meetings**

Maputo, Mozambique - I am honored to represent the United States at this 43rd Annual Meeting of the African Development Bank. On behalf of Secretary Paulson, I convey greetings to fellow Governors and would like to extend our gratitude to our gracious Mozambiquan hosts for their warm hospitality and to President Kaberuka and Bank staff for their hard work preparing for our meetings.

As we come to Maputo, I cannot help but be encouraged by Africa's continued robust economic performance. Although the global economic slowdown and higher food and fuel prices pose significant challenges to growth and inflation outlooks, Africa is better prepared to meet these challenges than at any time in its recent history. Africa's ability to meet these challenges is partly a result of exogenous factors. High commodity prices and expansive debt relief are widely acknowledged factors in Africa's current economic upswing. But I believe that even more important factors are the stronger political and economic leadership across the continent and the improved policies that have accompanied that leadership.

That leadership is transforming Africa from a continent shunned by investors into a land of new opportunities. Better macroeconomic policies, increasing transparency, and more open investment climates have begun to create an environment in which the private sector can grow. One indicator of this transformation is that private capital flows to Africa now exceed official development assistance flows.

Nonetheless, the obstacles to sustained economic growth and poverty reduction in the continent's poorest countries are formidable. A weak infrastructure base, shallow and underdeveloped financial sectors, and further reforms of the business climate must all be addressed if the private sector is to truly take hold and help drive the levels of sustainable economic growth needed to significantly reduce poverty in Africa. The Bank can play a critical supporting role in this work.

As we meet here today, much of the region and the world are suffering from large increases in food prices. The crisis requires a coordinated international response consisting of both immediate and medium-term actions and reflecting the respective missions of the many organizations involved. Like many countries, the United States has provided immediate additional assistance to the World Food Program and is in process of providing additional emergency assistance to those in need. We applaud the African Development Bank's intention to take actions consistent with its comparative advantage and strategic vision. We believe the most meaningful manner in which the Bank can contribute over the medium term is by strengthening agricultural productivity through building rural infrastructure and otherwise improving physical access to markets for rural farmers.

Under President Kaberuka's leadership over the last few years, the African Development Bank and Fund have taken important steps to improve their institutional capacity to help African countries meet the core development challenges they face. The region needs and deserves an institution that is focused on its comparative advantages, dedicated to achieving concrete results and organized and staffed to deliver assistance efficiently and responsively. We commend the Bank for the genuine progress it has made toward these broad goals in recent years and urge management to continue to implement the key institutional initiatives necessary to fulfill the Bank's mission.

Development impact – measuring the results of its assistance - is the primary criterion by which we judge the Bank's quality and effectiveness. We are pleased that the Bank has committed to becoming a truly results-based institution, as evidenced most clearly by the overarching results measurement framework agreed in the African Development Fund replenishment negotiations late last year. The challenge now of course is to fully implement it. This means collecting, measuring and reporting data that demonstrate the effectiveness of the Bank's work. But it also means making the difficult but necessary cultural change to an institution whose staff incentives, corporate philosophy and ground operations are anchored in the fundamental principle that quality matters more than quantity and that, at the end of the day, demonstrable results are the only true measure of success. We applaud the steps the Bank has taken and encourage the continuing process to institutionalize this framework and carry through on institutional reforms to make the irrevocable transition to a genuine results culture.

Two years ago in Ouagadougou we and other shareholders called on President Kaberuka to focus the Bank's activities on a limited number of priorities in which it has, or can develop, a comparative advantage. We believed it was essential that the Bank not try to be all things to all people, but instead focus on having a real impact on a manageable number of the region's core development needs. The Bank's response has been impressive. We are pleased to see Management's commitment in the Medium Term Strategy to focus its energies on the private sector, governance, regional integration and infrastructure (specifically water, energy and transportation.) By focusing its efforts in these areas, the Bank can leverage its limited resources and help African countries reach the higher levels of private sector-led economic growth needed to achieve development results. The ongoing challenge is to resist the understandable temptation to respond to needs and requests beyond the strategic comparative advantages the Bank has identified for itself. We urge management to be resolute and offer our strong support to maintain its focus.

The Bank's commitment to governance and fighting corruption was demonstrated by the recent adoption of the new governance strategy. Good governance is essential for sustainable growth throughout Africa. Expansion of private sector operations, while adhering to fundamental principles of additionality, is welcome and essential. Effectively engaging the private sector through catalytic transactions and improvements to the investment climate is the most powerful path to sustained growth and poverty reduction. We have been particularly pleased with some of the Bank's private sector operations in AfDF countries. We also welcome the Bank's work toward greater analysis of development impact ratings at the design stage of private sector operations.

As we look ahead, we see much to encourage us about the direction the Bank is taking to improve its operations and fulfill its promise as a vital institution for Africa's development. But I think we can all agree that the job is not yet done and we pledge our continued cooperation with President Kaberuka, Bank staff and other shareholders to help realize our shared vision for the Bank and for Africa. Thank you very much.

May 23, 2008
hp-995

Week 4 Wrap-Up: Treasury Sent 6.211 Million Stimulus Payments This Week

This week the Treasury Department sent out 6.211 million economic stimulus payments to American households totaling $4.927 billion. So far, Treasury has sent out 51.675 million total economic stimulus payments totaling $45.720 billion.

This week's numbers represent the near completion of all direct deposits, with the continued mailing of paper checks. Treasury facilities are still also working on completing the mailing of regular tax refund checks, and thus are not at full capacity for printing and mailing stimulus checks. In June, once the regular tax refund mailings are complete, Treasury will print and mail stimulus checks at full capacity and weekly volumes will increase.

Week Four (May 19-23)

Total Number of Payments: 6.211 million
Total Amount of Payments: $4.927 billion

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

Cumulative Total

Total Number of Payments: 51.675 million
Total Amount of Payments: $45.720 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28th and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM

May 23, 2008
2008-5-23-13-20-23-18756

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 $74,486 million as of the end of that week, compared to $74,424 million as of the end of the prior week.

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

	May 16, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			74,486
(a) Securities	15,829	11,760	27,589
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	15,273	6,617	21,890
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	4,236		
(3) SDRs	9,729		
(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 (-)		-52,000	-52,000		
(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)	74,486
--currencies in SDR basket	74,486
--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.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

PRESS ROOM

May 27, 2008
HP-996

Treasury Targets LET Leadership

Washington - The U.S. Department of the Treasury today designated four individuals that hold leadership positions in Lashkar-e-Tayyiba (LET), a Pakistan-based terrorist group with links to Usama bin Ladin and the al Qaida network.

"LET is a dangerous al Qaida affiliate that has demonstrated its willingness to murder innocent civilians," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence (TFI). "LET's transnational nature makes it crucial for governments worldwide to do all they can to stifle LET's fundraising and operations."

LET has conducted numerous attacks against Indian military and civilian targets since 1993. The Government of India implicated LET in the July 2006 attack on multiple Mumbai commuter trains, and in the December 2001 attack against the Indian Parliament. LET is also suspected of involvement in attacks in New Delhi in October 2005, and in Bangalore in December 2005. In March 2002, senior al Qaida leader Abu Zubaydah was captured at an LET safe house in Faisalabad, Pakistan.

LET arose in the early 1990s as the armed wing of the Sunni missionary movement Markaz-ud Dawa-wal-Irshad. Despite being banned by the Government of Pakistan in January 2002, LET continues to operate in Kashmir and engage in or support terrorist activities worldwide. LET was designated pursuant to U.S. Executive Order 13224 on December 20, 2001, and under UN Security Council Resolution 1267 on May 2, 2005. The U.S. Department of State named LET a Foreign Terrorist Organization (FTO) on December 26, 2001.

Today's action was taken pursuant to Executive Order 13224, which targets terrorists and those providing financial, technological, or material support to terrorists or acts of terrorism. Any assets these designees have under U.S. jurisdiction will be frozen and U.S. persons are prohibited from engaging in any transactions with the designees.**Identifying Information**

Muhammad Saeed
AKAs: Hafiz Muhammad Saeed
Hafiz Saeed
Hafiz Sahib
Hafiz Mohammad Saeed
Hafez Mohammad Sayeed
Hafiz Mohammad Sayid
Hafiz Mohammad Syeed
Tata Ji
Hafiz Mohammad Sayed
Address: House No. 116E, Mohalla Johar, Town: Lahore, Tehsil Lahore City, Lahore District, Pakistan
DOB: 5 June 1950
POB: Sargodha, Punjab, Pakistan
Father's Name: Kamal-ud-Din
National ID#: 3520025509842-7

Muhammad Saeed is LET's overall leader and chief and plays a key role in LET's operational and fundraising activities worldwide. Saeed oversaw the management of a terrorist training camp in Pakistan in 2006, including funding of the camp, which prepared militants to fight against Coalition forces in Afghanistan.

Saeed, in 2005, determined where graduates of an LET camp in Pakistan should be sent to fight, and personally organized the infiltration of LET militants into Iraq during a trip to Saudi Arabia. That same year, Saeed arranged for an LET operative to be sent to Europe as LET's European fundraising coordinator.

Zaki-ur-Rehman Lakhvi

AKAs: Zakir Rehman Lakvi
Zaki Ur-Rehman Lakvi
Zaki Ur-Rehman
Zakir Rehman
Abu Waheed Irshad Ahmad Arshad
Chachajee
Address 1: Barahkoh, P.O. DO, Tehsil and District Islamabad, Pakistan
Address 2: Chak No. 18/IL, Rinala Khurd, Tehsil Rinala Khurd, District Okara, Pakistan
DOB: 30 December 1960
POB: Okara, Pakistan
Father's Name: Hafiz Aziz-ur-Rehman
National ID#: 61101-9618232-1

Zaki-ur-Rehman Lakhvi is LET's chief of operations. In this capacity, Lakhvi has directed LET military operations, including in Chechnya, Bosnia, Iraq, and Southeast Asia. Lakhvi instructed

LET associates in 2006 to train operatives for suicide bombings. Prior to that, Lakhvi instructed

LET operatives to conduct attacks in well-populated areas.

Lakhvi, in 2004, sent operatives and funds to attack U.S. forces in Iraq. Lakhvi also directed an LET operative to travel to Iraq in 2003 to assess the jihad situation there.

In past years, Lakhvi has also played an important role in LET fundraising activities, reportedly receiving al Qaida-affiliated donations on behalf of LET.

Haji Muhammad Ashraf

AKA: Haji M. Ashraf
DOB: 1 March 1965
PPN: A-374184, Pakistani

Haji Muhammad Ashraf is LET's chief of finance, a position he has held since at least 2003. Ashraf traveled to the Middle East in 2003 and 2004, where he personally collected donations on behalf of LET. Ashraf assisted Saudi Arabia-based LET leadership in 2003 with expanding its organization and increasing its fundraising activities.

Mahmoud Mohammad Ahmed Bahaziq

AKAs: Mahmoud Bahaziq
Abu 'Abd al-'Aziz
Abu Abdul Aziz
Shaykh Sahib
DOB: 17 August 1943
Alt DOB: 1943
Alt DOB: 1944
POB: India
Nationality: Saudi Arabian
Saudi Registration Number: 4-6032-0048-1

Mahmoud Mohammad Ahmed Bahaziq is an LET financier and is credited with being the main financier behind the establishment of the LET and its activities in the 1980s and 1990s. He has also served as the leader of LET in Saudi Arabia. In 2003, Bahaziq coordinated LET's fundraising activities with Saudi nongovernmental organizations and Saudi businessmen, and encouraged LET operatives to continue and accelerate fundraising and organizing activities. As of mid-2005, Bahaziq played a key role in LET's propaganda and media operations.

PRESS ROOM

May 27, 2008
HP-997

Under Sec Steel to Speak at Meeting on Subprime Lending

Under Secretary for Domestic Finance Robert K. Steel will deliver remarks at the Treasury Department Wednesday during the President's Council on Financial Literacy Subcommittee Meeting on the Future of Responsible Subprime Lending. The meeting's opening session will feature remarks from Under Secretary Steel, Comptroller John Dugan from the Office of the Comptroller of the Currency, and Commissioner Paul Atkins of the Securities and Exchange Commission.

President George W. Bush created the President's Council on Financial Literacy on January 22. The purpose of the Council is to assist the American people in understanding and addressing financial matters.

Members of the media may attend the opening session.

Who
Robert K. Steel, Under Secretary for Domestic Finance, Treasury Department
John Dugan, Comptroller, Office of the Comptroller of the Currency
Paul Atkins, Commissioner, Securities and Exchange Commission

What
Remarks at the President's Council on Financial Literacy Subcommittee Meeting on the Future of Responsible Subprime Lending

When
Wednesday, May 28, 9:00 a.m. – 9:30 a.m. EDT

Where
Treasury Department
Cash Room
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.

May 28, 2008
HP-998

Under Secretary for Domestic Finance Robert K. Steel
Remarks Before the
President's Advisory Council on Financial Literacy
Subcommittee on the Underserved

Washington- Thank you and good morning. Let me first congratulate you on a timely and important meeting. I especially want to thank the President's Advisory Council on Financial Literacy and the Subcommittee on the Underserved for organizing this meeting.

In particular I want to thank the subcommittee chair, John Hope Bryant, as well as Council members Sharon Lechter and Ignacio Salazar for their efforts to cast more attention on the underserved, and subcommittee member Rev. Dr. Robert Lee, who could not be with us today, for his efforts in this area. And I also want to thank you, our meeting participants, for agreeing to focus on this important work.

When John called me about the Subcommittee's plans for today, he spoke about how today's mortgage problems are a clear example of the need for financial literacy. I wholeheartedly agree. But what I especially liked about today's meeting is your focus on the underserved and encouraging access to financial services to continue for credit-worthy Americans, even as we work through these challenging times in our financial markets.

Now let me turn to the main themes of today. We have seen financial innovation in the mortgage market. We have seen how that innovation benefits the U.S. economy and U.S. homeowners. Many Americans became homeowners because of these financial innovations.

Unfortunately many Americans do not have access to mainstream financial services. They lack the requisite understanding to utilize financial tools and products to manage their financial affairs properly. Additionally, as financial institutions revise their lending standards, some credit-worthy borrowers could find it more difficult to access the credit needed to finance their futures. As our markets move forward, they will need to find the right balance of improving their own lending practices, while not cutting off responsible, credit-worthy borrowers.

There are more financial products available now than ever, but these products have become more complex and challenging for all of us to understand. And as consumers, we need to know more than our parents or grandparents did, if we are going to employ these financial products successfully.

For the underserved, who by definition are not using many mainstream financial services, the barriers to understanding complex financial products are high. Many lenders do not clearly explain the terms of their complex loans and borrowers have infrequent or no experience with these products. These combined factors lead to a lack of participation, which continues a downward cycle for the underserved.

This creates an ongoing responsibility for us. We can see the true value of financial education by observing what happens when it is absent. In the last few years too many Americans either chose or were put into mortgages that were not appropriate for their financial positions. And without an adequate base of financial knowledge, too many consumers entered into loans that were difficult to understand. These trends were especially pronounced among subprime borrowers.

Avoiding preventable foreclosures is in the interest of all homeowners. We must reach homeowners who are struggling, reach them early, and reach them with information and hope. Although many mortgage industry leaders have stepped up their efforts to reach delinquent borrowers, too many distressed borrowers are still uncomfortable speaking to their lenders. This stems in large part from lack of financial education. In fact, we learned that 50 percent of foreclosures occur without borrowers ever talking to their lender or to a mortgage counselor.

We want distressed borrowers and lenders to work together and find a way to keep people in their homes. To do so we forged a coalition of mortgage servicers, counselors and investors that are working to avoid preventable foreclosures and to improve the functioning of the mortgage markets.

This, as you know, is our HOPE NOW initiative. Through this effort we are helping distressed borrowers by connecting them with mortgage counselors. To reach more Americans, HOPE NOW continues to broaden a public service announcement campaign, to spread the word that hope is only a phone call away.

We are also looking to the promise of financial education over the long-term. Financial education is preventative in nature. The best approach is to help people avoid difficult situations from the start.

By working with the type of private sector groups like the ones we have assembled here today, we can help Americans help themselves. More Americans can and should learn more about their money, and, in turn more about financial products.

A more financially literate consumer base – across all income levels and in prime and subprime markets alike – could have mitigated at least some of our current housing difficulties. Financial knowledge makes people better informed consumers. And when they understand the terms of a mortgage loan, they are better able to compare the costs and benefits of different products and they are better positioned to make long-term decisions that advance their financial goals.

With that in mind, and with an eye on the long-term view, the subcommittee will ask you today to consider what policy recommendations it should present to the President's Council to address some of these challenges. In particular, the subcommittee will ask you to think about potential solutions to questions such as: How can we better identify and differentiate responsible and irresponsible subprime mortgage lending? What types of financial literacy initiatives are needed now to lessen the possibility of another round of turmoil in the subprime mortgage market? How can the private and public sectors deliver financial education programs directly to the subprime borrower? What should more effective disclosure from lenders look like? And what are some of the best ways we can capitalize on "teachable moments" to make sure this and other important lessons are taught? And, just as important, how can we measure success?

Through better disclosure from lenders, improved products for consumers, and increased financial education for borrowers, we can encourage a vibrant, mainstream marketplace for credit-worthy borrowers looking to finance an education, to experience the dream of responsible homeownership, and to have the opportunity to turn other lifetime goals into reality.

When it comes to educating the subprime borrower, there are ideal roles for lenders, servicers, regulators and other organizations to play. The questions you discuss today are important to the President. This discussion complements other work happening within the federal government, such as the Federal Deposit Insurance Corporation's upcoming conference on lending for low and moderate income families.

We recognize that financial literacy cannot immediately fix all our problems. But as I mentioned, it is part of the long-term solution. It is the preventative medicine that will help today's underserved avoid tomorrow's financial problems.

Thank you for lending the council subcommittee your time and your energy. You are part of a growing movement to create a more financially literate nation. Thank you.

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PRESS ROOM

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May 28, 2008
hp-999

Treasury Releases Papers on Anniversary of President's 2003 Tax Relief

Washington, DC--The Treasury Department released today two papers illustrating the benefits to American families and businesses from the tax relief enacted over the last seven years.

The papers were released on the five-year anniversary of President Bush's signing the Jobs and Growth Tax Relief Reconciliation Act of 2003, which lowered rates on capital gains and dividends, helping individuals and businesses save and invest.

In "Topics Related to the President's Tax Relief," Treasury analyzes how the 2001 and 2003 tax relief, along with other tax relief passed over the last several years, has allowed more Americans to keep more money in their pockets. Some of the primary findings in this paper include:

- The individual income tax is highly progressive:
- In 2005, the top 5 percent of taxpayers paid more than one half (59.7 percent) of all individual income taxes, and the top 1 percent paid 39.4 percent; and
- Taxpayers who rank in the top 50 percent of taxpayers by income pay virtually all individual income taxes. In 2005, they paid 96.9 percent of all individual income taxes.
- In total, the President's tax relief reduces marriage penalties by $22.8 billion in 2008, with 6.9 million fewer couples suffering marriage penalties.
- About 70 percent (1 million) of the 1.4 million tax returns that benefit from lowering the top two tax brackets from 39.6 percent to 35 percent and from 36 percent to 33 percent are flow-through business owners.
- The President's tax relief has also reduced the marginal effective tax rate on new investment, which encourages additional investment, capital accumulation, and in the long-term, higher living standards for workers.

In "Tax Relief in 2001 through 2011," Treasury analyzes how the President's tax relief benefited Americans both in the aggregate and through several illustrative examples of how the tax relief has benefited certain types of taxpayers. If the President's tax relief is not extended, in 2011:

- A four-person, one-earner family with wage income each year of $40,000 in 2007 dollars would see a tax increase of $2,345;
- A four-person, one-earner family with wage income each year of $80,000 in 2007 dollars would see a tax increase of $2,000;
- A three-person, one-earner family with wage income each year of $40,000 in 2007 dollars would see a tax increase of $1,655; and
- A head of household with two children and wage income each year of $30,000 in 2007 dollars would see a tax increase of $1,615.

The analysis of the benefit of tax relief on American families and the economy includes tax legislation enacted from 2001 through 2008, notably:

- The Economic Growth and Tax Relief Reconciliation Act of 2001,
- The Jobs and Growth Tax Relief Reconciliation Act of 2003,
- The Working Families Tax Relief Act of 2004,
- The American Jobs Creation Act of 2004,
- The Tax Increase Prevention and Reconciliation Act of 2005,
- The Pension Protection Act of 2006, and
- The Economic Stimulus Act of 2008.

Copies of both papers are attached.

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REPORTS

- Topics Related to the President's Tax Relief
- Tax Relief 2001 through 2011

Topics Related to the President's Tax Relief

Department of the Treasury
May 2008

Topics Related to the President's Tax Relief

The President's tax relief, enacted principally in the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Working Families Tax Relief Act of 2004, the American Jobs Creation Act of 2004, the Tax Increase Prevention and Reconciliation Act of 2005, and the Economic Stimulus Act of 2008, reduced taxes for everyone who pays income taxes. This document provides discussions and estimates on several topics related to the President's tax relief.

Topics

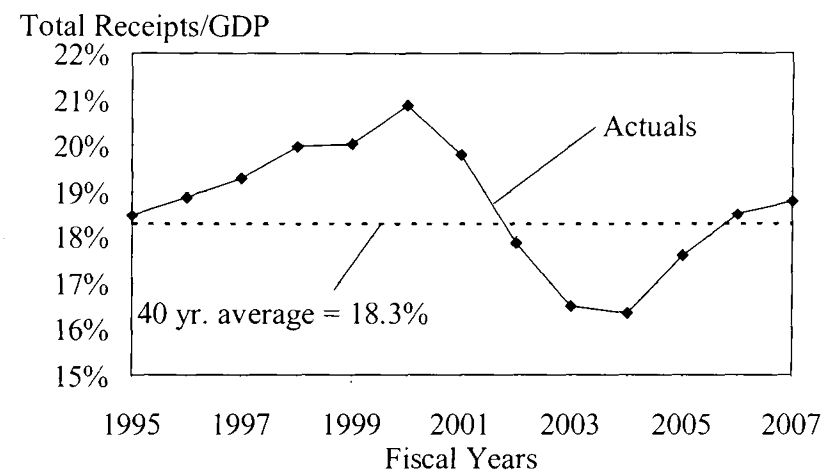
Recent Trends in Federal Tax Receipts as a Percentage of GDP

Over the past 40 years, the ratio of total federal receipts to GDP has been relatively stable, averaging 18.3 percent. Recently there have been significant swings in the share: receipts first rose dramatically to a post-war high of 20.9 percent of GDP in 2000, then fell precipitously as the economy slowed to a low of 16.3 percent in 2004, before rising again to a tax-to-GDP ratio of 18.8 percent in 2007.

Growth in Receipts: 1995 - 2000

Much of the growth during the late 1990s can be attributed to the extraordinary performance of the stock market and its effects on individual income tax receipts.

Federal Tax Receipts as a Percentage of GDP



Capital gains income, which is not captured in GDP, more than quadrupled between 1994 and 2000. Tax receipts from capital gains realizations more than tripled during this period, even though the tax rate on capital gains was reduced beginning in 1997.

Taxable personal income grew faster than GDP during this period. Wages as a share of GDP grew from 45.7 percent in 1994 to 49.2 percent in 2000. Much of the rise in wages was related to the exercise of stock options and bonus income.

Fall in the Receipts to GDP Share: 2000 - 2004

The trend began to reverse after 2000. The decline in the stock market, the economic downturn, and the tax relief enacted in 2001 and 2003 are all explanations. Both corporate profits and wages as shares of GDP fell after 2000. Individual income taxes paid on capital gains realizations declined sharply, by 48 percent in 2001 and 25 percent in 2002. Both the share and level of wages reported on tax returns by high-income individuals fell in 2001 and 2002.

Recent Increases in Receipts: 2004 - 2007

After 2004, tax revenues again grew faster than the economy. Despite the tax relief enacted earlier in the decade, the ratio of receipts to GDP was 18.8 percent in 2007, above the 40 year average. Between 2004 and 2006, capital gains realizations grew by approximately 60 percent. Growth in corporate income tax receipts was especially strong recently, nearly doubling in levels between 2004 and 2007, and contributing a full percentage point to the increase in the total federal receipts-to-GDP share.

Looking Forward

After the recent increase, corporate receipts have dropped off considerably this year. This reversal, coupled with the cost of the Economic Stimulus Act rebates, is expected to pull the receipts-to-GDP ratio back below the historical average in 2008. However, with the tax relief of 2001 and 2003 scheduled to expire under current law, the forecast is for future revenue growth to outpace GDP, bringing the tax-to-GDP ratio well above 18.3 in the years beyond 2010.

Who Pays Most Individual Income Taxes?

The individual income tax is highly progressive – a small group of high-income taxpayers pay most of the individual income taxes each year.

- In 2005, the latest year of available data, the top 5 percent of taxpayers paid more than one-half (59.7 percent) of all individual income taxes, but reported about one-third (35.7 percent) of income.

- In 2005, the top 1 percent of taxpayers paid 39.4 percent of all individual income taxes. This group of taxpayers has paid more than 30 percent of individual income taxes since 1995. Moreover, since 1990 this group's tax share has grown faster than their income share.

Share of Individual Income Taxes and Income, 1990-2005
Share of Individual Income Taxes
[Share of Adjusted Gross Income]

	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
2005	39.4	59.7	70.3	86.0	96.9	3.1
	[21.2]	[35.7]	[46.4]	[67.5]	[87.2]	[12.8]
2000	37.4	56.5	67.3	84.0	96.1	3.9
	[20.8]	[35.3]	[46.0]	[67.2]	[87.0]	[13.0]
1995	30.3	48.9	60.8	80.4	95.4	4.6
	[14.6]	[28.8]	[40.2]	[63.3]	[85.5]	[14.5]
1990	25.1	43.6	55.4	77.0	94.2	5.8
	[14.0]	[27.6]	[38.8]	[62.1]	[85.0]	[15.0]

Source: U.S. Department of Treasury, Office of Tax Analysis.

- Taxpayers who rank in the top 50 percent of taxpayers by income pay virtually all individual income taxes. In all years since 1990, taxpayers in this group have paid over 90 percent of all individual income taxes. Since 2000, this group paid over 96 percent of the total. In fact, in 2005 they were paying 96.9 percent of all individual income taxes.

The President's tax relief has shifted a larger share of the individual income taxes paid to higher income taxpayers. In 2008, with nearly all of the tax relief provisions fully in effect (e.g., lower tax rates, the $1,000 child credit, marriage penalty relief), the projected tax share for lower-income taxpayers will *fall*, while the tax share for high-income taxpayers will *rise*.

- As a result of the President's tax relief, the share of taxes paid in 2008 by the bottom 50 percent of taxpayers is reduced from 3.4 to 3.1 percent.

- As a result of the President's tax relief, the share of taxes paid in 2008 by the top 1 percent of taxpayers increases from 38.4 percent to 39.1 percent.

Projected Share of Individual Income Taxes and Income in 2008
Share of Individual Income Taxes[1]
[Share of Adjusted Gross Income]

	Top 1%	Top 5%	Top 10%	Top 25%	Top 50%	Bottom 50%
With Tax	39.1	59.4	70.1	85.8	96.9	3.1
Relief	[21.5]	[36.2]	[46.9]	[67.7]	[87.3]	[12.7]
Without	38.4	57.8	68.7	85.0	96.6	3.4
Tax Relief	[21.5]	[36.2]	[46.9]	[67.7]	[87.3]	[12.7]

Source: U.S. Treasury, Office of Tax Analysis.
[1]Estimates of tax paid do not take into account any behavioral responses to the tax relief.
NOTE: Percentile groups begin at income of: Top 50% $35,134; Top 25% $69,687; Top 10% $117,241; Top 5% $164,594; Top 1% $425,036.

Income Mobility

Many studies have documented the long-term trend of increasing income inequality. An important dimension of the distribution of income, however, is income mobility as households move up and down through the income distribution over time. One-time snapshots of the income distribution and comparisons of such snapshots in different years can be misleading.

A recent Treasury Department analysis shows there is a significant amount of income mobility in the U.S. economy. This analysis examined how the incomes of the same set of taxpayers changed between 1996 and 2005. Similar to other research, the study showed the movement of households across population quintiles (lowest 20 percent, etc.) over time. The table below shows the income quintiles of taxpayers in 1996 and where they end up in the overall income distribution of the tax filing population in 2005. Entries on the diagonal (in bold) indicate the percentages of taxpayers who remained in the same group ten years later, while entries off of the diagonal indicate those who moved up or down in the income distribution.

Income Mobility Relative to the Total Tax Filing Population, 1996 to 2005

1996 Income Quintile	2005 Income Quintile						
	Lowest	Second	Middle	Fourth	Highest	Total	Top 1%
			Percent				
Lowest	**42.4**	28.6	13.9	9.9	5.3	100.0	0.2
Second	17.0	**33.3**	26.7	15.1	7.9	100.0	0.1
Middle	7.1	17.5	**33.3**	29.6	12.5	100.0	0.3
Fourth	4.1	7.3	18.3	**40.2**	30.2	100.0	0.3
Highest	2.6	3.2	7.1	17.8	**69.4**	100.0	4.4
Top 1%	3.2	1.3	2.2	4.9	88.4	100.0	**42.6**
All Income Groups	13.2	16.8	19.6	23.3	27.1	100.0	1.2

Notes: Tabulations by the U.S. Department of the Treasury using data from IRS Statistics of Income, Individual Income Tax files for 1996 and 2005 for taxpayers age 25 and over in 1996.

Key findings from the table include:

- *Substantial income mobility*: More than half (56 percent in the table[1]) of households moved to a higher or lower income quintile between 1996 and 2005.
- *Substantial movement out of the bottom quintile*: Roughly half (58 percent (57.6 = 100 – 42.4)) by the measure used in the table and 45 percent by another measure reported in the study) of the households initially in the bottom 20 percent of the population moved to a higher quintile by 2005.
- *The very high income are an ever changing group*: The very high income – the top 1 percent – is a group whose composition changes substantially over time, rather than a fixed group of individuals who receive a larger share of income over time. More than half (57 percent, (57.4 = 100 – 42.6)) of those in the top 1 percent in 1996 had moved to a lower income group by 2005.

[1] This number is computed by adding the percentages in the non-diagonal cells for each income quintile and dividing by 500. The diagonal cells are those that have remained in the same income quintile, while dividing by 500 adjusts for the fact that each of the rows sums to 100 for a total of 500 for all cells in the table.

These results, which are consistent with prior studies, demonstrate significant income mobility and illustrate how one-time snapshots of the income distribution provide only a partial picture of the economic situation of households by ignoring the effects of income mobility on the well-being of households over time. Moreover, the Treasury analysis shows that income mobility over the 1996 to 2005 period was virtually the same as income mobility over the prior comparable period from 1987 to 1996.

Another aspect of mobility is the extent to which the real incomes of households rose or fell over time and by how much. As the table below shows, the study also found that median after-tax incomes rose for taxpayers in all but the highest income group, with the largest percentage increases received by those initially in the lowest income groups.

- Over two-thirds of households (70.1 percent) increased their real incomes between 1996 and 2005, and median household after-tax income increased by 28.6 percent.

- Increases in real income were the largest for households with the lowest incomes in 1987.

  - Among households in the lowest income quintile in 1996, median income increased by just over 90 percent by 2005.
  - Real incomes increased over the period for nearly 82 percent of these low-income households and at least doubled for almost half of this group.

- The effects of the tax relief enacted in 2001 and 2003 and later extended through 2010 are shown by the fact that median after-tax income increased more than median before-tax income (28.6 percent versus 24.2 percent)

  - Median after-tax incomes increased by at least 3 percentage points more than before-tax income in all but the lowest income quintile (in which few taxpayers owe income tax and many receive earned income tax credits that more than offset any income tax liability).

Absolute Income Mobility: Were taxpayers better off in 2005 than in 1996?

	After-tax cash income in 2005 compared to 1996 income in $2005								Percent Change in:	
1996 Income Quintile	Decreased more than 50%	Decreased 25 to 50%	Decreased up to 25%	Increased up to 25%	Increased 25 to 50%	Increased 50 to 100%	Increased 100% or more	Total	Median after-tax income	Median before-tax income
				Percent						
Lowest	6.9	4.7	6.7	8.3	9.0	14.7	49.8	100.0	90.3	90.5
Second	6.4	7.2	11.5	16.6	14.7	18.6	25.0	100.0	38.3	34.8
Middle	5.8	9.0	14.0	20.4	16.6	19.6	14.8	100.0	26.2	23.3
Fourth	6.8	9.4	16.1	22.4	18.7	17.5	9.0	100.0	20.7	16.6
Highest	12.0	12.1	17.1	20.7	15.9	13.5	8.7	100.0	14.8	10.0
Top 1%	37.3	13.9	11.9	9.4	6.9	7.2	13.4	100.0	-23.0	-25.8
All Income Groups	7.7	8.7	13.5	18.1	15.2	16.8	20.0	100.0	28.6	24.2

Notes: Tabulations by the U.S. Department of the Treasury using data from IRS Statistics of Income, Individual Income Tax files for 1996 and 2005 for taxpayers age 25 and over in 1996. Income is cash income less federal income tax.

How Has the President's Tax Relief Reduced the Marriage Penalty?

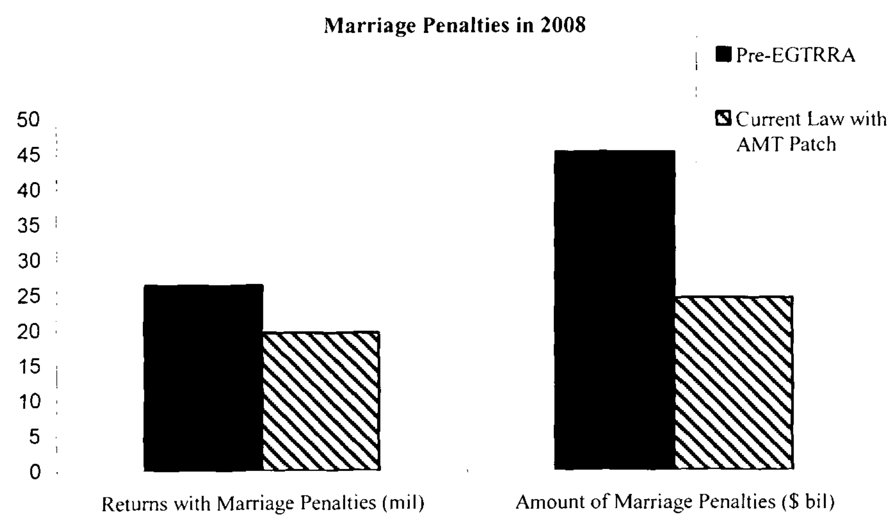
A couple suffers a "marriage penalty" if they owe more income tax when filing their tax return jointly than if they were unmarried and each spouse filed a separate return. The President's tax relief significantly reduced marriage penalties. As more taxpayers become subject to the alternative minimum tax (AMT) over the next decade, however, marriage penalties will rise.

Effect of the President's Tax Relief

Without the President's tax relief, 27 million married couples would have incurred $49 billion in marriage penalties in 2008. The 2001 tax relief reduced marriage penalties in three specific ways. The standard deduction and the width of the 15-percent rate bracket for joint filers were increased, eventually phasing up to twice the levels for single filers. The 2003 and 2004 tax relief accelerated implementation of these two provisions. The 2001 tax relief also lengthened the phase-out of the earned income tax credit (EITC) for married couples. These three provisions reduce marriage penalties by $11.1 billion in 2008 (the analysis here assumes extension of the AMT patch through 2008).

The President's tax relief also lowered marginal income tax rates. Flattening the tax rate structure and other changes will further reduce marriage penalties by $11.7 billion in 2008.

In total, the President's tax relief reduces marriage penalties by $22.8 billion in 2008, with 6.9 million fewer couples suffering marriage penalties.



Although marriage penalties have been substantially reduced, more than $26 billion in marriage penalties remain for over 20 million couples. Marriage penalties persist due to other provisions in the tax code. For example, the widths of the higher tax rate brackets for joint filers are less than double the widths for unmarried filers, thereby generating marriage penalties. In fact, the top tax bracket starts at the same level for both single individuals and married couples. Similarly, other provisions, such as the AMT, give rise to marriage penalties because the income thresholds for joint filers are less than twice the corresponding amounts for unmarried filers.

Over the next decade, if no changes are made to the AMT, it will erode the marriage penalty relief provided by the 2001 and 2003 tax acts if the tax relief provided in those acts is made permanent. Joint (and other filers) will increasingly become subject to the AMT, largely because the regular tax is indexed for inflation, but the AMT is not. As more taxpayers become subject to the AMT, marriage penalties will rise.

Effect of Lowering the Top Individual Tax Rates on Flow-through Businesses

Changes in the individual income tax affect most businesses in the United States. That is because taxes on business earnings are often paid through the individual income tax when "passed-through" to business owners. The business income from sole proprietorships, farm proprietorships, partnerships, S corporations, etc., is all taxed at the owners' individual income tax rates. This year 34 million business owners are expected to receive this type of income and pay tax on this income through the individual income tax (see table to the right).

Owners of Pass-through Businesses in 2008

Type of Business	Returns (millions)
Owners of pass-through businesses:	
S Corporations	4.2
Partnerships	4.5
Sole Proprietorships	21.6
Farm Proprietorships	2.2
Individuals with rental activities	9.8
Total pass-through owners 1/	34.4

Source: US Treasury Department, Office of Tax Analysis

1/ Total is not the sum of components because some individuals are owners of more than one type of business.

These businesses are typically small and often entrepreneurial in nature, and a source of innovation and risk-taking in the economy. Moreover, these business owners are frequently subject to the highest individual income tax rates. The reduction in the top two tax rates enacted in 2001 and 2003 has important consequences for these businesses and the overall economy because a disproportionate share of the tax relief provided by lowering the top tax rates goes to owners of pass-through businesses.

Reduction in the top tax bracket

- About 74 percent (about 585,000) of the 790,000 tax returns that will benefit this year from lowering the top tax rate from 39.6 percent to 35 percent are flow-through business owners.
  - Nearly 325,000 of these taxpayers receive more than 30 percent of their income from flow-through businesses.
- About 82 percent (about $23.4 billion) of the $29.2 billion in tax relief this year from lowering the top tax rate will be received by flow-through business owners.
  - Individuals with at least 30 percent of their AGI from pass-through businesses will receive 45 percent (or about $13.1 billion) of the total relief from lowering the top tax bracket.

Reductions in the top 2 tax brackets

- About 70 percent (about 1 million) of the 1.4 million tax returns that benefit from lowering the top two tax brackets from 39.6 percent to 35 percent, and from 36 percent to 33 percent, are flow-through business owners.
  - Nearly 540,000 of these taxpayers receive more than 30 percent of their income from flow-though businesses.
- About 81 percent (about $27.3 billion) of the total $33.8 billion in tax relief this year from lowering the top two tax rates will be received by flow-through business owners.
  - Individuals with more than 30 percent of their income from flow-through businesses receive 44 percent (or about $15.0 billion) of the total tax relief from lowering the top two tax rates.

Encouraging Investment

The President's tax relief has reduced the marginal effective tax rate (METR) on new investment, which is measured as the share of an investment's economic income needed to cover taxes over its lifetime. Lower METRs encourage additional investment, capital accumulation and, in the long-term, higher living standards.

- As shown in the table below, reductions in personal income tax rates (including the tax rates on dividends and capital gains) enacted in 2001 and 2003 have reduced the METR in the corporate sector by 17 percent, and in the overall economy by 16 percent.

Effect of President's tax relief on the marginal effective tax rate on new investment

	Business Sector			Owner-Occupied Housing	Economy-wide
	Corporate	Non-corporate	Total		
Without Tax Relief	31.9%	20.8%	27.6%	4.0%	19.4%
With Tax Relief 1/	26.3%	18.9%	23.4%	3.5%	16.2%
% Reduction	-17%	-9%	-15%	-13%	-16%

1/ Includes effects of lower regular income tax rates and lower tax rates on dividends and capital gains income, but not the temporary bonus depreciation provisions and not the manufacturing tax deduction.

- The temporary bonus depreciation provision enacted in 2002, expanded in 2003 to 50 percent, and re-enacted for 2008, provides a short-term investment stimulus. This provision lowered the METR on new equipment investment from 24.8 percent to 13.0 percent in 2002, and reduced it even further in 2003, 2004 and 2008.

Leveling the Playing Field

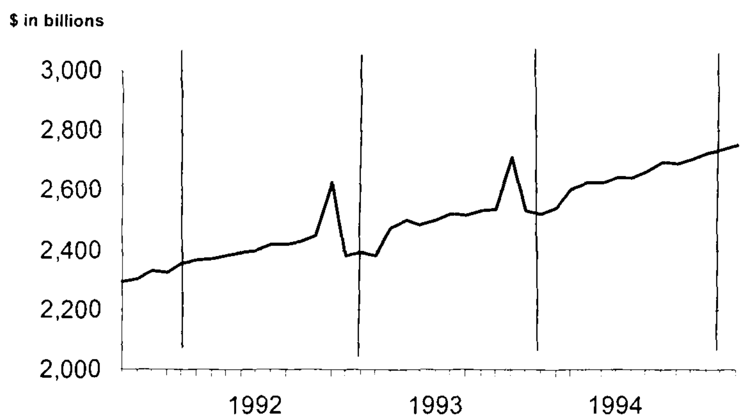
Taxing income from alternative investments at a more uniform METR – "leveling the playing field" – promotes efficient allocation of resources within the economy by allowing market fundamentals, rather than taxes, to guide financing and investment decisions.

- By lowering the tax rate on dividends and capital gains, the Jobs and Growth Tax Relief Reconciliation Act of 2003 *increased* tax uniformity by substantially reducing the METR on income from corporate equity financed investment, relative to other sources of capital income, such as debt and non-corporate income.

How Might Taxpayers Respond to Higher Tax Rates?

The reductions in individual income tax rates enacted in 2001 and accelerated in 2003 are scheduled to expire in 2010. How might taxpayers be expected to respond to higher tax rates in 2011? The responses to the large increases in top individual income tax rates enacted in 1993 serve as a useful guide.

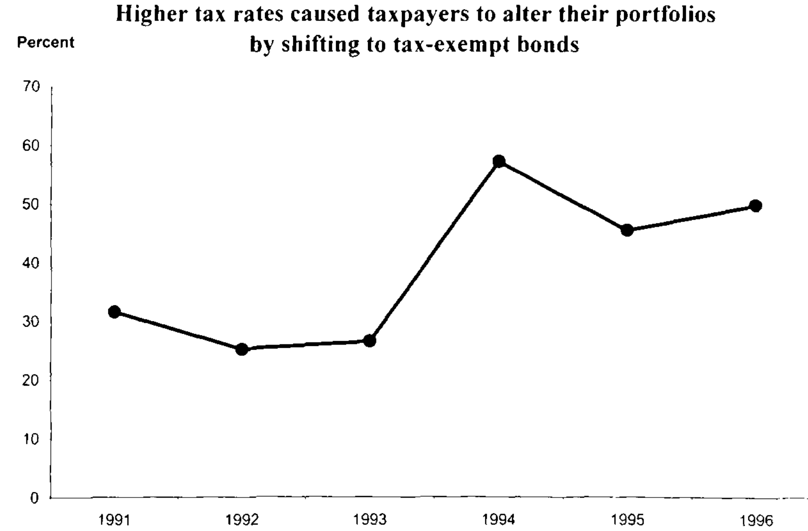
The 1993 tax increases caused taxpayers to change the timing of their income



Note: Private industry wage and salary disbursements, seasonally adjusted

One way taxpayers respond to higher tax rates is to change the *timing* of income and deductions. As illustrated in the chart to the right, high-income taxpayers accelerated the receipt of wages and year-end bonuses from 1993 to 1992 – over $15 billion – in order to avoid the effects of the anticipated increase in the top rate from 31 percent to 39.6 percent. At the end of 1993, taxpayers shifted wages and bonuses yet again to avoid the increase in Medicare taxes that went into effect beginning in 1994. Taxpayers also shifted other income and delayed their charitable donations and other deductions in anticipation of higher tax rates.

Higher tax rates caused taxpayers to alter their portfolios by shifting to tax-exempt bonds



Tax-exempt interest as percent of total interest income for taxpayers with 1991-96 average AGI $500,000 and over

High tax rates also have longer-term effects on taxpayers' decisions, such as the composition of their investment portfolios. The 1993 tax rate increases, for example, caused high-income taxpayers to shift their investment portfolios toward tax-exempt investments. As shown in the chart to the right, the tax-exempt interest of high-income taxpayers increased from about 30 percent to about 50 percent of total interest income. These taxpayers also likely shifted from taxable investments to non-dividend-paying stocks and tax-preferred retirement accounts. High tax rates thus cause taxpayers to engage in otherwise unnecessary tax reduction activity. Increasing tax rates can also affect how much taxpayers save and invest, when they retire, and how much labor they supply.

Tax Relief in 2001 through 2011

Department of the Treasury
May 2008

Tax Relief in 2001 through 2011

The tax relief enacted during the President's term in office, principally in the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Working Families Tax Relief Act of 2004, the American Jobs Creation Act of 2004, the Tax Increase Prevention and Reconciliation Act of 2005, and the Economic Stimulus Act of 2008, reduced taxes for everyone who pays income taxes as well as for business taxpayers. This document provides estimates of the aggregate tax reduction provided by the tax relief as well as estimates of the tax reduction received by representative taxpayers over the period 2001 through 2011.

Aggregate Tax Relief

The table below provides estimates of the aggregate reduction in taxes for both individuals and businesses resulting from legislation enacted during the President's term in office. The total tax relief is over $2 trillion. The tax relief initially peaked in 2004 due to the effects of the temporary 30-percent bonus depreciation enacted in 2001 and expanded to 50 percent in 2003. The tax relief again peaks in 2008 due to the economic stimulus payments and temporary 50-percent bonus depreciation enacted in the Economic Stimulus Act of 2008. While the main provisions of the tax relief are currently scheduled to expire at the end of 2010, tax revenue effects continue into 2011 because some provisions enacted during the period do not terminate,[1] because of assumed income shifting effects (e.g., taxpayers shifting capital gains and other taxable income from 2011 into 2010 to take advantage of the lower tax rates), and because some of the benefits of tax relief in 2010 will be reflected on returns filed in 2011.[2]

Aggregate Tax Relief in 2001 through 2011

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011
Calendar Years in Billions of Dollars											
85	134	219	265	179	184	234	312	205	162	38	2017

Note: Includes the impact of all tax legislation enacted from 2001 through 2008, notably:
The Economic Growth and Tax Relief Reconciliation Act of 2001
The Jobs and Growth Tax Relief Reconciliation Act of 2003
The Working Families Tax Relief Act of 2004
The American Jobs Creation Act of 2004
The Tax Increase Prevention and Reconciliation Act of 2005
The Pension Protection Act of 2006
The Economic Stimulus Act of 2008

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[1] For example, the Pension Protection Act of 2006 made permanent the pension and IRA provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001.

[2] The estimates in the table include only enacted legislation. Hence, the figures do not include the effect of extending the so-called "AMT patch" through 2008, which would add an additional $58 billion of tax relief in that year.

Tax Relief for Example Taxpayers

The tables on the following pages show estimates of the tax reduction from the President's tax relief received by representative taxpayers over the period 2001 through 2011. The estimates take into account the effects of the new 10-percent tax bracket (including the 2001 rate-reduction credit), the lower tax rates, the larger standard deduction for joint returns, the marriage penalty relief, the larger child credit and additional refundable child tax credit, the higher phase-out floor in the earned income tax credit for joint returns, the higher alternative minimum tax (AMT) exemption levels, the allowance of personal tax credits to be taken against the AMT, and the 2008 economic stimulus payments.

The first table, for example, shows the tax relief received by a four-person, one earner family with two children and real (inflation adjusted) wages equivalent to $40,000 in 2007. Over the entire period, the family receives tax relief aggregating to $19,016. The tax relief is highest in 2008 because of the economic stimulus payments enacted in the Economic Stimulus Act of 2008. When the tax relief ends after 2010, this taxpayer would experience a tax increase of $2,345 in 2011 compared to the effects if the tax relief had continued.

The additional tables can be interpreted similarly for the other example taxpayers.

Tax Relief 2001 through 2011

Four-Person, One Earner Family with Wage Income Each Year of $40,000 in 2007 Dollars

Year	Income ($)	Federal Income Tax ($)		Tax Reduction ($)
		Pre-EGTRRA or Post-2010 Sunset	Actual under Tax Relief	
2001	34,200	1,250	450	800
2002	34,700	1,228	428	800
2003	35,500	1,303	503	800
2004	36,400	1,378	-570	1,948
2005	37,700	1,490	-495	1,985
2006	38,900	1,565	-445	2,010
2007	**40,000**	1,625	-428	2,053
2008	41,100	1,700	-2,283	3,983
2009	41,900	1,715	-599	2,314
2010	42,900	1,805	-519	2,324
2011	43,900	1,858	1,858	0
TOTAL		**16,915**	**-2,101**	**19,016**

	Income ($)	Federal Income Tax ($)		Tax Increase Without Extension
		With Sunset	With Extension	
2011	43,900	1,858	-487	2,345

Assumptions: All income is from wages and salaries. Itemized deductions are 18% of income, and the taxpayer takes the larger of itemized deductions or the standard deduction. Beginning for 2009, the alternative minimum tax (AMT) exemptions revert to their permanent levels of $33,750 for unmarried taxpayers and $45,000 for married taxpayers filing jointly. The tax and the tax reduction shown for 2008 reflect the economic stimulus payment provided under the Economic Stimulus Act of 2008.

Tax Relief 2001 through 2011

Four-Person, One Eamer Family with Wage Income Each Year of $80,000 in 2007 Dollars

Year	Income ($)	Federal Income Tax ($)		Tax Reduction ($)
		Pre-EGTRRA or Post-2010 Sunset	Actual under Tax Relief	
2001	68,300	5,661	4,861	800
2002	69,400	5,736	4,936	800
2003	71,000	5,903	5,103	800
2004	72,900	6,107	4,392	1,715
2005	75,400	6,354	4,624	1,730
2006	77,800	6,589	4,834	1,755
2007	**80,000**	6,854	5,018	1,836
2008	82,100	7,341	3,396	3,945
2009	83,800	7,735	5,735	2,000
2010	85,800	8,199	6,199	2,000
2011	87,700	8,639	8,639	0
TOTAL		**75,118**	**57,737**	**17,381**

	Income ($)	Federal Income Tax ($)		Tax Increase Without Extension
		With Sunset	With Extension	
2011	87,700	8,639	6,639	2,000

Assumptions: All income is from wages and salaries. Itemized deductions are 18% of income, and the taxpayer takes the larger of itemized deductions or the standard deduction. Beginning for 2009, the alternative minimum tax (AMT) exemptions revert to their permanent levels of $33,750 for unmarried taxpayers and $45,000 for married taxpayers filing jointly.The tax and the tax reduction shown for 2008 reflect the economic stimulus payment provided under the Economic Stimulus Act of 2008.

Tax Relief 2001 through 2011

Three-Person, One Earner Family with Wage Income Each Year of $40,000 in 2007 Dollars

Year	Income ($)	Federal Income Tax ($)		Tax Reduction ($)
		Pre-EGTRRA or Post-2010 Sunset	Actual under Tax Relief	
2001	34,200	2,185	1,485	700
2002	34,700	2,178	1,478	700
2003	35,500	2,260	1,560	700
2004	36,400	2,343	895	1,448
2005	37,700	2,470	985	1,485
2006	38,900	2,560	1,050	1,510
2007	**40,000**	2,635	1,083	1,553
2008	41,100	2,725	-348	3,073
2009	41,900	2,755	1,143	1,613
2010	42,900	2,853	1,223	1,630
2011	43,900	2,920	2,920	0
TOTAL		**27,883**	**13,473**	**14,410**

	Income ($)	Federal Income Tax ($)		Tax Increase Without Extension
		With Sunset	With Extension	
2011	43,900	2,920	1,265	1,655

Assumptions: All income is from wages and salaries. Itemized deductions are 18% of income, and the taxpayer takes the larger of itemized deductions or the standard deduction. Beginning for 2009, the alternative minimum tax (AMT) exemptions revert to their permanent levels of $33,750 for unmarried taxpayers and $45,000 for married taxpayers filing jointly. The tax and the tax reduction shown for 2008 reflect the economic stimulus payment provided under the Economic Stimulus Act of 2008.

Tax Relief 2001 through 2011

Head of Household with Two Children and Wage Income Each Year of $30,000 in 2007 Dollars

Year	Income ($)	Federal Income Tax ($): Pre-EGTRRA or Post-2010 Sunset	Federal Income Tax ($): Actual under Tax Relief	Tax Reduction ($)
2001	25,600	-836	-1,536	700
2002	26,000	-997	-1,697	700
2003	26,600	-926	-1,626	700
2004	27,300	-880	-2,390	1,510
2005	28,300	-756	-2,279	1,523
2006	29,200	-743	-2,280	1,538
2007	**30,000**	-841	-2,401	1,560
2008	30,800	-803	-3,576	2,773
2009	31,400	-934	-2,524	1,590
2010	32,200	-866	-2,469	1,603
2011	32,900	-883	-883	0
TOTAL		**-9,465**	**-23,660**	**14,195**

	Income ($)	Federal Income Tax ($): With Sunset	Federal Income Tax ($): With Extension	Tax Increase Without Extension
2011	32,900	-883	-2,498	1,615

Assumptions: All income is from wages and salaries. Itemized deductions are 18% of income, and the taxpayer takes the larger of itemized deductions or the standard deduction. Beginning for 2009, the alternative minimum tax (AMT) exemptions revert to their permanent levels of $33,750 for unmarried taxpayers and $45,000 for married taxpayers filing jointly. The tax and the tax reduction shown for 2008 reflect the economic stimulus payment provided under the Economic Stimulus Act of 2008.

PRESS ROOM

May 29, 2008
2008-5-29-10-51-3-9600

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 $75,116 million as of the end of that week, compared to $74,486 million as of the end of the prior week.

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

	May 23, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			75,116
(a) Securities	16,030	12,387	28,417
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	15,449	6,107	21,556
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	4,278		
(3) SDRs	9,824		
(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 (-)		-62,000	-62,000		
(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)	75,116
--currencies in SDR basket	75,116
--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.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

May 30, 2008
HP-1000

Week 5 Wrap-Up: Treasury Sent 5.757 Million Stimulus Payments This Week

This week the Treasury Department sent out 5.757 million economic stimulus payments to American households totaling $4.320 billion. So far, Treasury has sent out 57.433 million total economic stimulus payments totaling $50.041 billion.

This week's numbers represent the near completion of all direct deposits, with the continued mailing of paper checks. Treasury facilities are also still working on completing the mailing of regular tax refund checks, and thus are not at full capacity for printing and mailing stimulus checks. In June, once the regular tax refund mailings are complete, Treasury will print and mail stimulus checks at full capacity and weekly volumes will increase.

Week Five (May 26-30)

Total Number of Payments: 5.757 million
Total Amount of Payments: $4.320 billion

Week Four (May 19-23)

Total Number of Payments: 6.211 million
Total Amount of Payments: $4.927 billion

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

Cumulative Total

Total Number of Payments: 57.433 million
Total Amount of Payments: $50.041 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28th and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 2, 2008
HP-1001

Remarks by U.S. Treasury Secretary Henry M. Paulson, Jr. on Open Investment Before the U.S.-UAE Business Council

Abu Dhabi, UAE –Thank you, it is a pleasure to be with you here in Abu Dhabi. The UAE has a long history of economic engagement with other lands, dating back to the great pearl trade and the legendary 15th Century explorer and trader known as the "Lion of the Sea."

It is appropriate, then, that I am here today to discuss the benefits of open investment and trade policies and to reaffirm the United States' commitment to an open economy.

Oil Markets

However, I will start with a most pressing issue -- the reality and implications of record-high oil prices in this region and around the world.

Surging oil revenues have led to a massive accumulation of capital in the Gulf in a very short time. To put this in context, GCC countries will provide about 18 percent of global capital exports in 2008 -- more than double their share just five years ago.

The upside of this oil wealth is that the Gulf countries have an historic opportunity to shore up their economic fundamentals, diversify their economies and make needed investments in human capital -- steps that should help avoid the boom and bust cycles of the past and support broad based growth. Many of the region's leaders are embracing this opportunity by paying down debt, setting aside wealth for future generations, increasing health and education spending, and improving the environment for foreign and domestic private investment.

Nowhere is this more evident than here in the UAE, where a vibrant, diversified economy is reflected in an innovative and extraordinary construction and services boom. Examples of remarkable projects abound -- designs for a carbon neutral city, a new, dynamic financial center and a new university. These projects are evidence of the benefits of adopting outward-oriented policies, and I hope they encourage other countries to follow suit.

The downside of increased oil revenues is that the Gulf is experiencing new challenges – such as inflation -- that are, in some instances, being addressed with measures like price controls and wage hikes that are likely to exacerbate the problem. And beyond this region, record high oil prices are putting a large burden on the world economy and creating hardships for families, households and industries everywhere. This threatens to exacerbate economic volatility in the Gulf and abroad.

There are no simple or quick remedies for this, and let me be clear in stating that the Gulf region alone cannot alleviate the pressures in global oil markets. High oil prices are the result of supply and demand factors that are likely to persist for some time. Supplies have been affected by low capacity expansion and declining yields, while demand has surged largely due to growth in emerging markets. Speculation and the depreciation of the dollar are likely only small factors behind oil price increases.

Successfully alleviating the pressures in oil markets will require matching supply to demand. On the demand side, we need to allow market forces to work, to avoid subsidies and other potentially distorting policies. We also need to invest in renewable fuels and alternative technologies, and to reduce oil dependency through improved energy efficiency. As I saw this morning when I visited the massive alternative energy program at the Masdar project, the UAE is already leading the way in this critically important field.

On the supply side, we are urging all oil producing countries to open oil markets to foreign investment, which would support faster and more efficient growth. The UAE is a case in point. As an important first step, Abu Dhabi is financing massive investments in upstream production and domestic refining capacity through partnerships with foreign companies. More liberalization along these lines would benefit all oil producing countries. In the case of the UAE, the United States is benefitting too; U.S. suppliers of oil and gas field equipment and services are 45 percent of the UAE's total imports.

Open Investment

Investment flows to the region are growing rapidly: there has been a three-fold increase in foreign direct investment over the past decade, and U.S. foreign direct investment grew by 120 percent between 2001 and 2006, in part due to liberalization of investment policies in the Gulf. However, the potential is much greater and, in many Gulf countries, investment barriers persist in key sectors, such as energy and real estate.

Further investment in the Gulf will bring innovation, technology, create new jobs, improve services and contribute to a widening economic base. I understand that as economies change, uncertainty can create resistance to openness. It is critical to understand, however, that in the long run, openness to trade and investment will not only bring prosperity, but will also improve stability by better enabling economies to manage external shocks and smooth out business cycles. Remaining closed to investment will have the opposite effect, by inhibiting growth and magnifying domestic economic vulnerabilities. The Gulf's past is a reminder of this lesson -- when oil prices were low the region endured years of lackluster growth and declining living standards.

Open economies also introduce greater competition, and many U.S. companies have become industry leaders in part because of this competition. If our companies weren't investing in markets overseas, they would lose that global presence and their leadership position. If multinational companies can't grow in markets around the world, they will shrivel up at home too. And U.S. companies that invest abroad create at least one job at home for every job they create overseas.

Countering Protectionism

I have met with many leaders from the Middle East who ask if the United States really continues to welcome foreign investment. Some here worry about growing protectionist sentiment in the United States, and they also worry specifically that U.S. sentiment toward Middle East investment has been permanently affected by the Dubai Ports World case. My response is the same as that expressed by President Bush during his Middle East visit two weeks ago -- as we seek to open new markets abroad, America will keep our markets open at home to investment from private firms and from sovereign wealth funds. We reject measures that would isolate us from the world economy.

Since coming to Treasury, and in the aftermath of Dubai Ports World, I have actively worked to ensure that the United States continues to benefit from open investment. In fact, in the two years following DP World, the number of U.S. acquisitions by Gulf country investors rose by more than 100 percent and the combined value of those deals rose by more than 400 percent. Despite what the headlines may say, our investment review process has looked at just over 10 percent of the publicly announced acquisitions by Gulf investors, and all of those transactions were allowed to proceed.

We have reaffirmed, at every opportunity, the longstanding U.S. commitment to open economies. One of my highest priorities remains challenging the mistaken notions that underlie protectionism -- with facts, figures and a firm belief in a future that holds more promise, not less.

We also worked with our Congress to ensure that our framework for reviewing investments is fully consistent with this posture. Congress passed a new law to codify improvements to the review process, which is done through our Committee on Foreign Investment in the United States, CFIUS, which reviews certain investments that raise legitimate national security concerns. This new law, and the resulting administrative changes, signal recognition by both Congress and the Administration that while we must safeguard national security, we can do so while continuing to welcome foreign investment. Most notably, the law ensured that the CFIUS process remains narrowly focused on investments that raise legitimate national security concerns, and treats all foreign investments equally, regardless of their source. These reforms provide investors with greater clarity and predictability. We are continuing to make improvements, as the process is still far from perfect. And when the inevitable challenges arise in the future, we will meet and overcome them without swaying from our commitment to safeguard national security while keeping America open to investment.

And, in order to continue to benefit from sovereign wealth fund investment, we proposed that the International Monetary Fund develop a set of credible, best practices for these funds. The IMF expects to produce these recommendations this fall. I will expand on this issue for a moment because our objectives are not always fully understood. Among some sovereign wealth fund managers, our initiative has raised concerns that we are trying to limit the scope of their activities or release privileged information. In fact, our purpose is just the opposite. We are trying to quell calls for restrictions by urging sovereign wealth funds to endorse best practices to create a dynamic rise to the top and help allay concerns about opacity and systemic risks. Thank you to the leaders at the Abu Dhabi Investment Authority for your constructive role on this important issue.

As the United States has reformed our investment review regime, we have been careful to not reach beyond national security to broader industrial or economic interests. Other nations are also reviewing their international investment policies, as safeguarding security interests is legitimate and necessary. Yet no economy or people are served well in the long run by hiding protectionism under the cloak of such safeguards.

The U.S. Economy

Maintaining open investment and free trade policies is especially crucial now, as the world economic landscape changes. As you know, the U.S. economy is going through a rough period – after six straight years of almost 3 percent average annual growth, our growth rate slowed significantly late last year. We are facing a trio of headwinds – a housing correction, capital markets turmoil and high and rising energy prices.

We have acted quickly to respond to the housing downturn through a series of public and private initiatives to help financially-able homeowners stay in their homes and to keep mortgage finance available. President Bush and the U.S. Congress also came together in February to enact a $150 billion fiscal stimulus package that is providing support to individuals and businesses this year, when it's needed.

This fiscal stimulus will provide support to the economy as we weather this period. Unemployment remains low and increased exports are partially offsetting other less positive factors. Overall, I believe that the United States is on the right path to resolving market disruptions and building a stronger financial system. Our long term prospects remain strong. One thing is very clear to me – whatever our current difficulties, I wouldn't bet against the U.S. worker or the U.S. economy.

Although we expect to be working through housing and capital markets issues for some time, we also expect to see a faster pace of economic growth before the end of the year. The capital and credit markets are calmer now than earlier in the year. The de-leveraging and re-pricing of risk continue, as does the capital-raising that is so essential for U.S. financial institutions to continue to support the broader economy. Although I believe we are on the right path, a number of our important credit markets are still not functioning as normal and we should expect some bumps in the road ahead.

As we work through this period, we have also developed the necessary policy responses. The private sector and financial regulators are working to implement a series of recommendations from the President's Working Group on Financial Markets, including in the areas of mortgage origination, securitization, risk management, credit ratings agencies, and over-the-counter derivatives.

Many of these issues are as global as our markets, and we have worked closely with the Financial Stability Forum (FSF), to bring an internationally coordinated response. The FSF has produced a series of recommendations that complement efforts underway in the United States. Although the FSF recommendations are in response to recent financial turmoil, they are instructive for all markets, even those less affected by recent events.

Currency Markets

The forces I have discussed -- the changing global economic landscape, our response to the current financial turmoil, the growing role of sovereign wealth funds, and international efforts to promote openness to trade and investment in the face of growing protectionist pressures -- are shaping today's and tomorrow's international financial system. I want to be clear -- the United States is committed to a strong and stable international financial system, and I fully recognize my country's special responsibility in this regard. I also recognize that well-functioning and orderly currency markets are an essential part of this responsibility.

A great deal of attention, and rightly so, has been paid to our current economic challenges in the United States, particularly the housing correction and the stresses in the financial markets. I don't want to make light of these challenges. They are very real. And, when we have a problem in our markets, we don't minimize it, but we shine a light on it and move quickly to clean it up. As I discussed earlier, we are responding aggressively and comprehensively to address our challenges and minimize the impact on the U.S. and global economies. But we also take confidence from the fact that the performance of the U.S. economy for the past five decades is unmatched and its long-term fundamentals compare favorably today to any advanced economy in the world.

I have repeatedly stated that a strong dollar is in our nation's interest. The U.S. dollar has been the world's reserve currency since World War II and there is a good reason for that. The United States has the largest, most open economy in the world, and our capital markets are the deepest and most liquid. The long-term health and strong underlying fundamentals of the U.S. economy will shine through and be reflected in currency values.

I am committed to promoting policies that enhance the underlying competitiveness of the U.S. economy and ensure that the dollar remains the world's reserve currency. And, as I have emphasized today, these include being a strong advocate for open investment and trade, and working to address the current challenges in our economy, including the housing correction and stress in our capital markets.

Thank you.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

April 29, 2008
hp-1002

**Minutes of the Meeting of the
Treasury Borrowing Advisory Committee
of the Securities Industry and Financial Markets Association
April 29, 2008**

The Committee convened in closed session at the Hay-Adams Hotel at 10:35 a.m. All Committee members were present. 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.

Director Ramanathan initiated the discussion by addressing the first item on the charge related to the fiscal outlook and the Committee's thoughts on debt issuance given current and medium-term trends in the economic outlook. In particular, Treasury sought the Committee's views on the potential introduction of new securities, including the 52-week bill.

Director Ramanathan delivered a presentation to the Committee which highlighted various factors to consider including the flat growth of individual and corporate income taxes year-over-year, the increase in outlays by nearly to 6% year-over-year, and the impact of the stimulus program enacted in February 2008. These factors have led to a substantial increase in deficit estimates by market participants, with the average deficit estimate rising nearly $156 billion to $414 billion.

Moreover, according to Director Ramanathan, marketable borrowing – i.e. borrowing from the public - has increased from $134 billion in fiscal year 2007 to nearly $300 billion fiscal year to date in 2008, and this large increase warranted the Committee's focus.

Director Ramanathan noted that the redemptions and outright sales by the Federal Reserve since August for liquidity purposes have resulted in the Treasury's need to issue an additional $200 billion in bills and coupons this fiscal year. Moreover, state and local government issuance, which totaled $58 billion in fiscal year 2007, is -$10 billion (i.e. a net redemption) fiscal year to date. This issuance is not expected to reverse in the near term. These factors, as well as volatility in receipts and outlays, have resulted in less predictable cash balances making cash management an ongoing challenge. In addition, Director Ramanathan stated that the rapid processing of tax refunds from February to April combined with the tax rebates to be transmitted this week have resulted in the increased use of cash management bills.

Treasury has increased bills and nominal coupons in accordance with previous periods of increasing deficits, according to Director Ramanathan, who then displayed a comparison of the 2001-2002 issuance period versus the 2007-2008 period. At the same time, Treasury has moderated the growth of Treasury Inflation Protected Securities (TIPS) in order to further balance the overall portfolio. Director Ramanathan noted that while the par growth of TIPS has exceeded 20% over the past seven years on a compounded annual growth rate, the inflation accrual portion – which is much less predictable from Treasury's perspective – has grown at nearly 27% over the same period. This moderation in the growth of the program, along with the near term challenges associated with maturing coupons, leads to additional financing needs in the near to medium term. Moreover, enhancing tools for cash and debt management purposes, such as increased repo authority and using excess cash balances in a highly transparent manner to repurchase debt, should be considered and potentially implemented.

With this background, and given current trends, Director Ramanathan asked the Committee its views on debt issuance, and in particular, the introduction of the 52-week bill.

One Committee member framed the discussion by stating that there are two perspectives that need to be considered: a shorter-term perspective and a longer-term perspective. The member discussed the current issue sizes for all current offerings and enumerated the responses that Treasury could undertake to meet the gap in the funding needs, including increasing issuance sizes, increasing the frequency of offerings, and adding new instruments.

Another member stated that a proper response to the question involved how Treasury viewed the balance of risk going forward. In response, Director Ramanathan stated that maintaining the status quo at current issuance levels with the current offering menu would leave Treasury with a financing gap approaching $150 billion for the reminder of FY08. In addition, the risks to the deficit were potentially to the upside based on the assessment on the economic outlook by market participants.

Director Ramanathan also affirmed that Treasury had issued over $200 billion in cash management bills fiscal year to date in 2008 versus $267 billion in all of fiscal year 2007 and $247 billion for all of fiscal year 2006. While the dramatic shift in the deficit necessitated such short term issuance, Director Ramanathan stated that alternative funding sources should be considered to lessen or moderate this reliance on short dated financing.

One member noted that the yield curve was steep, and that demand for Treasury bills was very high, particularly from non-traditional sources. As a result, bills were the optimal instrument for financing the current fiscal outlook. Several members countered by stating that such demand could reverse if economic or financial market conditions revert.

A few members also noted that 13-week and 26-week bill auctions could be increased from current offering amounts without market dislocations. Members generally agreed that shortdated debt, including 52-week bills to address current funding needs, would be potentially be less costly then adding more frequent longer issues and/or adding new maturity points.

A discussion then ensued regarding the risks of increased borrowing in the short end of the curve, particularly regarding rollover risk and exogenous events that may raise debt service costs in the future. Members noted that more than forty percent of Treasury's debt rolls over in two years or less, and that Treasury already has a bias toward the short-end of the curve. Another member stated that Treasury may want to consider an average maturity target to better hone its decision-making process on how to adjust the maturity structure. This member noted that focusing on the short-end of the curve for financing because it was currently cheap was short-sighted and may not minimize costs over the longer-term.

Some members pointed out that the recent demand for short-dated Treasury paper reflected a re-pricing of risk that could unwind at some point, raising borrowing costs. Another member noted that that the swap markets were already pricing in higher future rates for Treasury as measured by spreads to LIBOR. A member suggested that shifts in foreign demand could create pressure in the short end of the curve, while another member suggested that pressures on fund managers to outperform the Treasury market were already causing some accounts to start considering riskier assets.

Several members agreed that Treasury debt managers should remain extremely flexible given the uncertainty in the economic outlook and given the significant increase in marketable borrowing needs. A Committee member stated that debt managers generally had an extremely complex mission in the current environment given the uncertainty present in the economy and the fiscal outlook. According to this member, Treasury should be forward looking despite the large volatility of deficit estimates, and keep in sight structural changes which may emerge related to entitlement programs and tax policy. Such a forward looking posture could result in a longer dated portfolio with issuance focused in the note and bond sector. Several members concurred, and noted that Treasury should ensure it had sufficient tools to address medium term challenges, including enhanced repo authority and a debt repurchase program.

Members generally agreed that Treasury should reintroduce the 52-week bill in June and auction the security as it was previously issued - on a 4-week rolling basis. Auctioning the 52-week in conjunction with the 4-week bill on Tuesdays with settlement on Thursdays would be better received by the markets, and also leave room in the auction calendar if other changes were necessary, such as additional re-openings or issuances of an existing security such as the 10-year, or the introduction of a new security.

While members agreed that the 52-week bill was necessary to address short term financing needs, there was more debate about how to address intermediate term funding needs. Some members felt that the 3-year note could be reintroduced without much difficulty. Several other members suggested that introducing a longer-dated instrument such as the 7-year note or moving to monthly 10-year note issuance were better alternatives. These members noted that there was significant demand for 7- to 10 year paper, in part, because of shifts in the mortgage market and the need to hedge fixed rate loans and demand for deliverable paper into the 5- and 10-year futures contracts. Several members also felt that issue sizes in longer-dated securities could be increased further.

The Committee agreed that Treasury needed to be very transparent about what steps might be needed to address intermediate-term funding needs, and prepare the market for financing changes that are needed, including adjusting issue sizes of longer-maturity instruments, increasing the frequency of issuance of securities, and/or adding new offerings. The Committee felt that as early as the August 2008 refunding, Treasury may consider making statements about their intentions if the economic or fiscal outlook deteriorate and/or become clearer.

The Committee then focused its attention on second item on the charge related to recent actions by market participants to address fails to deliver in the Treasury repurchase market. At the February Refunding, Treasury had discussed the potential for an environment in which lower interest rates raised the potential risk of systemic fails, a risk that potentially impairs liquidity and raises the cost of borrowing. Treasury at that time asked market participants to pursue the identification and implementation of market oriented solutions to help mitigate such a development.

Treasury specifically asked for the Committee's view on actions taken by market participants, what other steps should be undertaken and what type of timeline and benchmarks would be most effective.

A series of charts related to this matter were presented by a Committee member 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. The presenting member, along with DAS Abbott, outlined efforts initiated by groups such as the Securities Industry and Financial Markets Association (SIFMA) and the Treasury Markets Practice Group (TMPG).

In the series of charts, a list of action items to be taken by SIFMA was listed. These steps, such as negative rate trading, a mini-repo closeout clause, a strengthening of the buy-in rule, closer fails monitoring, compliance officer training, and best practices, would incrementally assist in the reduction of fails in a low rate environment. SIFMA and the TMPG noted that these actions, to be taken by private market participants, could mitigate the next serious emergence of fails.

According the presenting member, SIFMA and the TMPG supported the enactment of these initiatives to prevent another set of systemic fails. The member made a distinction between systemic fails that were difficult to control - such as those related to investors not lending securities at the end of their fiscal years for financial reporting reasons - and fails which may result from deliberate positioning actions by market participants in low-rate environment. The presenting member also outlined the initiatives and role of the TMPG in greater detail.

A discussion followed the presentation.

Committee members were encouraged by the collaborative efforts undertaken by the industry groups to formulate viable solutions to address chronic fails. Members discussed other private and public sector measures that could more effectively address chronic fails including negative rate trading, broader netting mechanisms for buy-side and sell-side participants, and targeted increases to supply through scheduled and unscheduled re-openings. The Committee agreed that the TMPG, in conjunction with SIFMA and other private sector entities, should give further consideration to these and other initiatives.

One member asked why Treasury does not tap issues to deal with fails. DAS Abbott explained that tapping an issue for such a purpose would reduce the certainty of supply at initial auction, and introduce a concession into prices received at auctions.

One member cautioned that "boundary" rules, such as the buy-in rule, could be gamed and warned that such constraints could create unintended problems. Members thought that moral suasion and ambiguity were better tools for addressing problems than rigid regulatory structures. Members felt that fails largely were a problem at low interest rate levels because the cost of fails declines dramatically. Many members felt that if the cost of failing could be decoupled from the interest rate levels, the economic incentives would be sufficient to prevent most systemic fails episodes.

One member noted that the model for many of the proposals for dealing with fails came from equity markets, and equity market rules may not be appropriate for the Treasury market. The member noted that unlike the equity markets where participants generally hold long positions, the Treasury market is characterized by much more short selling. In markets were there are more short positions than long positions, flexibility is needed.

Another member noted that systemic fails tend to occur in low-interest rate environments when financial markets are being stressed, and that rigid rules will exacerbate market dislocations. Furthermore, every event that created systemic fails is different and the flexibility associated with moral suasion is most efficient and will not burden market participants with additional regulatory requirements. This member stated that self-policing was necessary, and that compliance and supervisory authorities needed to be reminded of the importance of monitoring fails.

The Committee agreed, however, that that private sector *inaction* would potentially lead to less preferable outcomes including potential increased regulation, capital charges, or other responses. Implementation of the steps outlined and recommended by the TMPG and SIFMA in an incremental manner, and in a short time frame, would negate such potential responses if another large fails episode occurred.

Finally, the Committee briefly addressed the final item on the charge concerning recent and potential measures to address issues in the housing market. Treasury sought the Committee's views on recent initiatives taken by the private sector, Treasury, and other sectors of the federal government to address challenges in the housing sector, and asked what other potential fiscal policy measures should be considered and evaluated in light of the projected borrowing needs of the Treasury.

Members discussed several pending legislative efforts in Congress. A few members noted that providing economic incentives to both home owners and lenders to renegotiate the terms of the defaulted mortgages may be a worthy effort. These members suggested that the lack of a "floor" on housing prices is adversely affecting the price and liquidity of mortgage debt, and until a floor is established on the underlying collateral, mortgage paper associated with the collateral will continue to be illiquid and impair credit markets.

Other members suggested that a lot of details still needed to be addressed regarding the various proposals. Litigation risks associated with the renegotiation of defaulted loans would be a potential major hurdle according to some members. Another member asked how second liens would be dealt with, and how any proposal could be structured to prevent currently compliant mortgagees from forcing renegotiation of their loans

Some members then questioned of the wisdom of such proposals to the degree that it created a moral hazard for borrowers to default. Some members suggested that the risk associated with the moral hazard may be less than the systemic risk of doing nothing. Moreover, these members stated that a temporary floor on prices was not a good option, and that the market should work its way out of this mess without government intervention. Other members questioned the longer-term wisdom of using taxpayer money to rescue risk-takers that speculated in an asset bubble.

The Committee agreed that most of the proposals under consideration were fraught with issues, and that seeking a "best fit" would be difficult.

The meeting adjourned at 11:58 a.m.

The Committee reconvened at the Hay-Adams Hotel at 6:00 p.m. All the Committee members except Gary Cohn and Mohammed El-Erian were present. The Chairman presented the Committee report to Under Secretary Steel.

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

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.

Karthik Ramanathan, Director
Office of Debt Management, United States Department of the Treasury
April 29, 2008
Certified by:

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

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

Fiscal Outlook

Given current and medium-term trends in the economic outlook, what are the TBAC's thoughts on Treasury's debt issuance? In particular, Treasury would like the Committee's views on the potential introduction of new securities, including the 52-week bill.

Recent Actions by Market Participants to Address Fails to Deliver in the Treasury Repurchase Market

At the February Refunding, we discussed the potential for an environment in which lower interest rates raised the potential risk of systemic fails, a risk that we believe impairs liquidity and raises our cost of borrowing. In addition, we asked market participants to pursue the identification and implementation of market oriented solutions to help mitigate such a development.

What is the Committee's view on actions taken by market participants? What other steps would you suggest be undertaken? What type of timeline and benchmarks would be most effective?

Recent and Potential Measures to Address Issues in the Housing Market

Treasury would like the Committee's views on recent initiatives taken by the private sector, Treasury, and other sectors of the federal government to address challenges in the housing sector.

What other potential fiscal policy measures should be considered, and how should they be evaluated in light of the projected borrowing needs of the Treasury?

Financing this Quarter

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

- The composition of Treasury notes and bonds to refund approximately $74.0 billion of privately held notes maturing on May 15, 2008.
- The composition of Treasury marketable financing for the remainder of the April-June quarter, including cash management bills.
- The composition of Treasury marketable financing for the July-September quarter.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 3, 2008
HP-1003

Treasury Assistant Secretary Nason to Discuss Regulatory Reform

U.S. Treasury Assistant Secretary for Financial Institutions David G. Nason will give remarks on financial markets and regulatory reform on Wednesday, June 4, in New York City. The following event is open to media:

Who	U. S. Treasury Assistant Secretary for Financial Institutions David G. Nason
What	Remarks on Financial Regulatory Reform
When	Wednesday, June 4, 8:15 a.m. (EDT)
Where	Securities Industry and Financial Markets Association Fixed Income Legal and Compliance Conference Marriott Marquis 1535 Broadway New York City, N.Y.
NOTE	Press who want to register for the event may contact Katrina Cavalli at kcavalli@SIFMA.org or 212 313 1181.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 3, 2008
hp1004

Under Secretary David H. McCormick Remarks to the World Affairs Council in Pittsburgh

"Looking Past Today: Staying Competitive in a Changing Global Economy"

Pittsburgh - These are clearly challenging times for the United States economy. In recent months, we've seen the housing market falter, with an increasing number of foreclosures over the past year. We've seen credit markets tighten, making it harder for companies and individuals to borrow. And we've seen commodity and energy prices hit record highs. These events are taking a toll on the U.S. economy and affecting families across Pennsylvania and throughout America. Real GDP growth in the first three quarters of 2007 averaged 3.1 percent on an annualized basis, but slowed significantly at the end of last year and was 0.9 percent in the first quarter of 2008. While we expect the recent stimulus package to support an increase in growth in 2008 and for the overall growth outlook to be modestly better by the end of the years, the U.S. economy is clearly struggling.

This period of slower growth has generated anxiety among many Americans about our future. It has led some to question the ability of the United States to remain the world's leading economy at a time when competition across the globe is increasing. Still others suggest that recovery lies in a retreat inward, away from international economic engagement, and back to what they remember as a calmer and simpler time when the U.S. was less dependent on the rest of the world.

Yet, this is a false choice. In today's global economy, a shift inward is tantamount to economic stagnation and would cost millions of jobs, deter foreign investment, curtail growth, and increase the cost of many goods and services purchased by American households. In fact, the key to remaining competitive in today's changing world is embracing openness to trade, to investment, and to people. To continue our unprecedented growth and prosperity, America – and Pennsylvania – must adapt to the new challenges and opportunities created by the dynamic global economy. In short, we need a new national consensus on globalization that can provide the basis for continued U.S. economic leadership in the decades ahead.

Financial Market Turmoil

Let me begin by putting our current economic situation in context. Starting in 2002, the U.S. economy experienced a long period of benign economic conditions marked by low interest rates, low inflation, and less volatile asset markets, which led many to overlook the "risk" half of the risk-reward equation at the heart of financial markets. Investors around the world, who in preceding years had enjoyed above-historical returns on most types of investments, continued reaching for ever-higher gains. The financial-services industry created a variety of complicated new products to meet this demand. Regulators and investors alike showed a growing complacency toward risk. These factors blended into a dangerous cocktail of underlying conditions ripe for instability.

Last summer, these new vulnerabilities in our financial system became clear. Looser credit standards in the housing market, combined with an end to rapid home price appreciation, led to a significant rise in delinquent mortgages. This in turn contributed to immediate and unexpected losses for investors and a reconsideration of the risk-reward relationship – first in housing, and soon after, across all asset classes. Shaken investor confidence in housing assets had a domino effect throughout world markets, ratcheting up demand for cash and liquidity, and curtailing the pace of the new lending and investment necessary for strong growth to continue.

U.S. policymakers responded aggressively to stabilize the markets to reduce the turmoil's impact on the real economy and address the underlying regulatory gaps and policy weaknesses. The U.S. Federal Reserve took focused actions to protect the financial system from severe disruption by ensuring that markets have access to financing. The Administration and Congress responded with a $150 billion bipartisan stimulus package when it became clear that the market turmoil, together with the housing market downturn and high energy prices, were posing significant risks to the U.S. economy. This package provides stimulus payments for millions of Americans and tax incentives for business investment. Policymakers also launched a series of housing-market initiatives to help millions of Americans by increasing the availability of affordable mortgage financing and preventing avoidable foreclosures.

We have also begun to focus, in cooperation with international policy makers, on the weaknesses in business practices of financial institutions revealed by the market turmoil. Together, we are taking steps to strengthen the oversight of risk management and reporting practices of financial institutions; enhance disclosure of and the process for setting values for complex products; change and clarify the role and use of credit ratings; and reform the mortgage-origination process. In each of these broad categories, the specific proposals are concrete, widely accepted and, in a number of cases, already being implemented by national or international authorities, as well as by the private sector. With these efforts, along with the general flexibility and resiliency of the U.S. economy, we will work through these challenges and hope to see a strengthening economy by the end of the year.

Growing Protectionism

Unfortunately, the recent market developments have contributed to a climate of increased distrust and anxiety among Americans that is fueling support for protectionist policies. This is partially due to concerns created by the economic downturn, but it is also the result of a broad-based transformation underway across regions and within all sectors of our economy.

International competition from free trade, as an example, appears threatening to Americans already skeptical about the overall benefits of globalization. A recent Pew Research Center poll found that 48 percent of Americans see free trade agreements as a bad thing for the country, and only 30 percent seeing them as a good thing. This message has reached Capitol Hill, where there is reluctance to pass the Colombia Trade Promotion Agreement, despite its clear benefits to the United States and Colombia. We also see protectionist rhetoric particularly pronounced in this political year where the benefits of trade are being openly questioned by individuals from across the political spectrum.

Many Americans are also fearful about the implications of foreign investment. In the wake of September 11th, concerns about national security have led Congress and the public to take a careful look at investment from outside our borders. The Dubai Ports World case epitomizes this concern, as do the frequent headlines about investment by sovereign wealth funds. And it is not just in the United States. Many countries are now considering further restrictions on foreign investment in certain sectors of their economies, and are also considering limits to sovereign wealth fund investment. In an increasingly globalized world, some countries seem resolved that the only sure protection is the rejection of foreign capital. While some investments may pose genuine national security concerns, broader restrictions on foreign direct investment, whether explicit or implicit, also pose serious economic risks.

Finally, we also see Americans increasingly concerned about competing for jobs against people from around the world. Talent is the most important commodity in the global marketplace and ever more fungible as advanced technology makes borders less relevant. U.S. companies are global leaders in a variety of industries, and to maintain or improve their global leadership position they have to hire the best talent, wherever that talent may be. And their U.S. employees benefit as these companies maintain their competitive edge and grow. But this is a difficult reality for many Americans to accept.

One response by Congress to this concern has been to limit the number of highly-skilled worker visas allowed into the United States. Ironically, restrictions on highly skilled people into the United States have led many American companies like Microsoft, for example, to relocate some operations overseas in order to find a more skilled workforce. This only exacerbates the perception that America can no longer compete. The fact is that the United States must attract and retain the world's best and brightest to remain at the cutting edge of innovation. And, increasingly, many of these individuals will not have been born in the United States.

The Case for Openness

These fears and anxieties are symptomatic of a rapidly changing world. But, the free flow of trade, investment, and intellectual capital to the United States is more of a cure for our economic challenges than a root cause. Indeed, America's openness has historically been the bedrock of its competitiveness, ingenuity, and productivity. If we are to continue to prosper in today's global economy, openness is no longer a choice but a requirement.

The data unequivocally support these claims, whether it is in the area of trade, foreign direct investment, or the free flow of talent. On trade, U.S. exports to the world are at an all time high. In 2007, exports accounted for 12 percent of GDP, and contributed to more than a third of U.S. economic growth. Exports have been a boon for Pennsylvania too, with one-sixth of all manufacturing workers in Pennsylvania dependent on exports for their jobs. The greater Pittsburgh metro area exported $8.3 billion of goods in 2006, nearly one-third of Pennsylvania's exports. In addition, Pennsylvania exported nearly $30 billion in goods in 2007, up from $26.3 billion in 2006, and overall exports are up 85 percent since 2002. These exporters include not just large firms such as Alcoa and Heinz, but smaller companies such as Advanced Materials and American Textile, located here in Pittsburgh. For many U.S. companies, international markets – that contain ninety-five percent of the world's consumers and where purchasing power is growing at an accelerating pace -- offer the greatest opportunity for growth.

One way the Administration is trying to further the benefits of trade is through Free Trade Agreements (FTA) with our strategic economic partners. FTAs benefit both countries by reducing or eliminating tariff rates, improving intellectual property regulations, opening government procurement opportunities, and easing investment rules. Under President Bush's leadership, we have negotiated 10 new FTAs, for a total of 15 agreements, and our exports to these partners are growing twice as fast as our exports to the rest of the world. The fact is, FTAs promote fairer trade for America, as we already have very low tariffs in the United States, and in many cases give duty-free treatment to goods from other countries. Free Trade Agreements even the playing field by ensuring these partners cut their tariffs on American goods. As one of my colleagues recently put it, we already have free trade with Colombia – it just so happens to be one-way free trade, because currently, 90 percent of goods from Colombia come into the U.S. duty free. The purpose of this agreement is to make trade a "two-way" street, so a growing number of American goods made by American workers enter Colombia duty free.

Trade agreements also help promote investment opportunity, which fuels economic dynamism and innovation, as well as deployment of new technologies that raise productivity and, ultimately, our standard of living. Free trade agreements help spur American investment overseas and foreign investment in the United States by setting transparent ground rules for doing business in each country. This improves investor confidence, makes the United States a more attractive investment destination, and makes it easier for American companies to expand their businesses overseas.

This is important because over 5 million jobs in the United States are directly created by foreign direct investment (FDI), and about the same number of additional jobs are indirectly supported by the U.S. operations of foreign-owned firms. Pennsylvania is a clear beneficiary of such investment. It ranks as the fastest-growing state in attracting international business, and in 2006, Pennsylvania ranked as the number one destination for new cross-border investment. In addition, over 987 foreign-owned firms employ approximately 230,000 workers in Pennsylvania. Not only does foreign investment create jobs, it tends to create better-paying jobs with compensation on average more than 25 percent higher than U.S.-owned firms. These jobs are heavily weighted in manufacturing, and foreign firms account for 14 percent of all R&D investment in the United States.

Like with investment, it is also increasingly true that skilled employees are a competitive advantage for global businesses, and that companies and countries that attract and retain the world's best and brightest win in the marketplace. When looking at the U.S. economy, it is easy to understand why this needs to be a top priority. One quarter of all U.S. start-ups in engineering and technology established between 1995 and 2005 had at least one foreign-born founder. These include big name firms like Google, Sun Microsystems, and eBay. Other countries are catching on. Germany, Australia, and the United Kingdom, for example, are all taking the global competition for talent very seriously and are aggressively recruiting to snatch up the next business visionaries. To keep up, the United States cannot rest on its past reputation as being the best place in the world to live and work and instead must compete actively to win the global war for talent.

A New Consensus for Globalization

We face a real challenge – a growing risk of protectionism and a turn inward at a time when America's openness could not be more important to its future. In order to bridge the divide, we need to set some new rules of the game which recognize both the enormous benefits as well as the potential downsides of globalization. I do not have the answers, but as a starting place, I would like to suggest several broad areas in which we will need new ideas, new levels of cooperation, and ultimately, a new bipartisan consensus on globalization if we are to compete and win in today's global economy.

First, we need more effective policies and approaches for helping individuals, companies, and regions to adapt to the rapid pace of global economic change. Even though it generates significant benefits in the aggregate, globalization inevitably results in winners and losers. While trade provides great benefits to the U.S. economy as a whole, these benefits are not always distributed equally. Workers in certain industries, for example, will sometimes lose their jobs, and communities will sometimes be disaffected. Helping those negatively impacted will require new training, new skills, and a new model for helping those displaced to not only land on their feet, but to climb even higher up the economic ladder.

Companies, cities, and regions must also change, diversify, and reinvent themselves - a constant reality as new technologies replace old and growth breeds competition. Here in Pittsburgh we see evidence of this, as the city has transformed itself from one dominated by steel mills to a city focused on developing new industries in information technology, advanced manufacturing, and medical devices.

Such focus fits well into the second principle, which is creating a predictable and welcoming investment environment. Capital is like water, flowing to where there is the least resistance. And, also like water, capital is the lifeblood of entrepreneurship, innovation, and growth. To attract capital, cities, regions, and the country overall must ensure that the business climate reflects investment-friendly tax regimes, attracts and retains a talented work force, and predictably enforces the rule of law.

The World Bank ranks countries' overall business climate in its annual `Doing Business' study. Not surprisingly, the United States ranks very high in the latest study, third overall out of 178 countries (Singapore and New Zealand are first and second). But, the U.S. ranks only 76th on taxation, 24th on dealing with licenses, and 18th on working through bankruptcy proceedings. This is unacceptable for the most dynamic economy in the world, and other countries are not standing still.

Third, we need to invest in winning the global talent war and this will require targeted policies to recruit and retain these highly-skilled, high potential workers to America's shores. This not only means significant changes in current policies but a fundamental shift in our mindset as a nation as well. For example, the current cap on temporary visas for skilled workers, so called H-1B visas, should be raised significantly from its current cap of 65,000. As recently as 2001-2003, Congress raised the cap to 195,000, providing important skills to the U.S. economy, but it has returned to dramatically lower levels.

Moreover, we must adopt more aggressive approaches for pursuing outstanding foreign students and professionals and create incentives for them to stay in the United States upon completion of their degrees. Foreign born scholars hold more than half of all science and engineering post-doctoral positions at U.S. universities, while about 38 percent of U.S. doctoral-level employees in technical firms are foreign born. This is an asset America cannot afford to lose.

There are other areas such as investment in education, particularly math, science, and engineering that are the cornerstone of any innovative economy, and which will enhance our competitive strengths. The United States leads the world in R&D and has boosted federal R&D funding by almost half under the leadership of President Bush. Still, these investments are a fraction of what they can and should be. Total R&D spending in the U.S. is likely to rise by about 3 percent this year, reaching almost $350 billion. China, which is second in R&D investment in the world at about $150 billion, is boosting its spending by roughly 15 percent per year and Asian universities now produce almost half of all engineering graduates in the world. Given these trends, we can no longer take our leadership in these areas for granted.

These suggestions are merely a starting point for a discussion about a competitiveness agenda for winning in today's global economy. None of these ideas are mutually exclusive -- they are interdependent. For the United States adapting to globalization is not just about changing one policy but requires a holistic approach to maximizing the benefits of globalization while addressing its inevitable disruptions.

Conclusion

The challenges of our current economic climate have led some to question America's global economic leadership in the future. I don't want to make light of these challenges. They are very real. And, when we have a problem in our markets, we don't minimize it, but we shine a light on it and move quickly to clean it up. As I discussed earlier, we are responding aggressively and comprehensively to address our challenges and reduce the impact on the U.S. and global economies. But we should also take confidence from the fact that the performance of the U.S. economy for the past five decades is unmatched, and its long-term fundamentals compare favorably today to any advanced economy in the world. I have no doubt that the United States will weather the current storm and will emerge stronger than before.

A more fundamental question, however, is whether in this time of dramatic global economic change and turmoil we will remain true to the underlying principle of openness that has made this country great. We are a country of immigrants, whose strength was forged from our differences and a common vision for a better life. This strength is embodied still by the United States' place as the world's leading economy, innovator, and manufacturer, and home to many of the world's most brilliant scientists, engineers, and entrepreneurs. It is a country that has thrived because of its engagement with the world. We have not yet deviated from this path, and we most assuredly should not.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 3, 2008
HP-1005

Statement of Neel T. Kashkari Nominee for Assistant Secretary of the Treasury for International Affairs U.S. Senate Committee on Banking, Housing and Urban Affairs

Washington - Chairman Dodd, Ranking Member Shelby, and members of the Committee, I am honored to appear before you today as President Bush's nominee to serve as Assistant Secretary of the Treasury for International Affairs. Please allow me to express my gratitude to the President and to Secretary Paulson for the confidence and trust that they have shown in me, and I would also like to thank you for your consideration of my nomination. I wish to also thank my wife Minal – who is here today – for her continuous support of my career and my public service.

If confirmed, I look forward to working closely with this committee, and your colleagues in the United States Senate as well as the U.S. House of Representatives to advance U.S. economic interests at home and abroad.

I would like to briefly discuss my experience and how it has prepared me for the position to which I have been nominated. In my role as Senior Advisor to Secretary Paulson, I have been responsible for developing and executing international and domestic policies for the Department to foster a more conducive investment climate for the U.S., as well as to support global economic growth. Prior to my government service, I worked as an investment banker, where I executed financial and strategic transactions that have prepared me for the position to which I have been nominated.

Since joining the Treasury Department in July 2006, I have led several policy initiatives for the Department, including:

1. Promoting Indian financial sector liberalization and free trade through strengthened economic engagement and increased infrastructure investment;
2. Enhancing U.S. energy security by implementing policies that will, over time, reduce our exposure to the global oil market by encouraging the development of alternative fuels and by improving the efficiency of our auto fleet;
3. Spearheading our response to the housing crisis by mobilizing the private sector to avoid preventable foreclosures and working to ensure the flow of capital into the housing market, enabling the necessary housing correction to move forward as quickly as possible, and minimizing spillover from housing to the rest of the real economy.

Washington - Chairman Dodd, Ranking Member Shelby, and members of the Committee, I am honored to appear before you today as President Bush's nominee to serve as Assistant Secretary of the Treasury for International Affairs. Please allow me to express my gratitude to the President and to Secretary Paulson for the confidence and trust that they have shown in me, and I would also like to thank you for your consideration of my nomination. I wish to also thank my wife Minal – who is here today – for her continuous support of my career and my public service.

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Prior to joining Treasury, I was a Vice President at Goldman Sachs where I advised U.S. and international companies on both debt and equity financings and global mergers and acquisitions. As an advisor to management teams and boards of directors, I gained firsthand insight into the challenges that U.S. companies face as they strive to access markets abroad while also competing with global players here at home. This transactional experience will be particularly relevant to helping implement our critically important investment security policy through the Committee on Foreign Investment in the United States (CFIUS). I will work hard to ensure that U.S. national security is protected, while encouraging foreign investment in the U.S.

Prior to joining the financial services industry, I strengthened my analytical skills as an aerospace engineer, developing technology for future NASA space science missions, such as the James Webb Space Telescope, the replacement to Hubble, which is scheduled to launch in 2013.

My educational background includes a Bachelor's and Master's degree in engineering from the University of Illinois at Urbana-Champaign and an M.B.A. in finance from the Wharton School.

If confirmed, I look forward to working with the Administration, Congress, and the staff at the Department of the Treasury to promote global economic growth, financial market stability, and open markets for U.S. goods and services.

Mr. Chairman, Senator Shelby, Members of the Committee, I am grateful for the opportunity to appear before you today. I would be pleased to answer any of your questions.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 4, 2008
HP-1006

Assistant Secretary David G. Nason
Remarks at the SIFMA

New York- Thank you for inviting me here to offer opening remarks at the 13th Annual Fixed Income Legal and Compliance Conference. The Securities Industry and Financial Markets Association is a key trade group for the financial services industry and we in Washington have come to value your expertise and perspective. SIFMA is empowered by its mission to champion policies that benefit investors and issuers. Today I would like offer the Treasury Department's perspective on some of the economic and market conditions in the United States and discuss our perspective on key regulatory policy matters.

Think back to the conditions in our capital markets and your last Legal and Compliance Conference. Some of the discussion topics were similar to today's, but the lens through which we look at them is now quite different. These market conditions provide a pertinent backdrop for an examination of financial markets and regulatory issues.

Today I will provide an update on financial market and economic conditions, then I will discuss regulatory issues that policymakers must address in the near-term and in the future. The regulatory issues before financial policymakers today are incredibly complex and deserve measured consideration rather than a rush to conclusion.

Economic and Market Conditions

Undoubtedly, the U.S. economy is going through a difficult period. After six straight years of almost three percent average annual growth, our growth rate slowed significantly late last year. The root causes of the stress are well documented. The turmoil in financial markets was born from a dramatic weakening of underwriting standards for U.S. mortgages, especially subprime mortgages, beginning in late 2004 and extending into early 2007.

The loosening of credit terms in the subprime market was symptomatic of a much broader erosion of market discipline on the standards and terms of loans to households and businesses. Following many years of benign economic conditions and plentiful market liquidity, global investors had become complacent about risks, even in the case of new and increasingly complex financial instruments. The confluence of many events led to a significant credit contraction and a repricing of risk. Sentiment swung hard to risk aversion with perhaps one of the most dramatic series being the events that led to the unusual transaction where JPMorgan Chase acquired Bear Stearns.

Although we expect to work through housing and capital markets issues for some time, we also expect to see a faster pace of economic growth before the end of the year. We are seeing signs of progress as capital and credit markets have stabilized somewhat. The markets are calmer now than earlier in the year. The deleveraging and repricing of risk continues, as does the capital-raising that is essential for the viability of U.S. financial institutions. Capital raising improves market confidence and allows banks to continue to extend the lending necessary for economic growth.

Secretary Paulson has urged financial institutions to raise additional capital and we have been pleased that our largest institutions have gone to market to do so. Since December of last year, financial institutions have raised more than $200 billion in capital. Importantly, this investment is helping to facilitate price discovery in markets that are suffering from significant illiquidity. It is also encouraging to see signs that different types of investors are interested in financial institution investments such as sovereign wealth funds and most recently private equity firms.

Despite this progress, some trends are not as encouraging. The unsecured interbank financing market faces ongoing challenges and many securitization markets remain strained.

On a separate but related track we are focused on housing, which presents the most significant threat to our economy. Both the Federal Housing Administration and the HOPE NOW Alliance are making a meaningful impact on this problem. The HOPE NOW Alliance announced recently that homeowners had received a record number of mortgage modifications in one month.

Similarly, our government sponsored enterprises, Fannie Mae, Freddie Mac and the Federal Home Loan Banks, are performing their Congressionally-mandated roles by providing liquidity for our mortgage market. Fannie Mae and Freddie Mac are connected to 80 percent of the overall mortgage market. This is an important role and it increases the need to ensure that these enterprises are regulated appropriately. But we are seeing encouraging developments in efforts to improve their regulatory oversight to give confidence to the market.

A key way policymakers can all work together to send a positive signal to the markets, especially the housing market, is to send a strong GSE reform bill to the President's desk. We are encouraged by the recent progress made in the Senate Banking Committee to strengthen oversight of GSEs and we strongly support it. Chairman Dodd and Ranking Member Shelby have been instrumental in guiding this important legislation through the Committee. The bill provides the new regulator with the appropriate powers, including capital, receivership, new product approvals, and portfolio authority. I have been in Washington long enough to recognize when the stars are aligned to move a complicated piece of legislation like GSE reform. This is one of those moments and we should capitalize on it.

The Treasury Department is working to understand the lessons learned from the current housing and broader market challenges. Treasury, in conjunction with other functional regulators, has developed policy responses to begin to address the ongoing crisis of confidence in our markets. These policy responses can be categorized into broad themes and each of these themes are discussed in a recent policy statement produced by the President's Working Group on Financial Markets.

Regulatory Reform

A confluence of events has moved the topic of financial services regulatory reform from an academic exercise to an economic necessity. While there is great temptation to view these issues through the lens of the problems we are facing today; the forces compelling change are much broader. The most dominant force or trend compelling change is the globalization of the financial services industry.

Globalization means that foreign economies are maturing into market-based economies, contributing to global economic growth and stability, providing a deep and liquid source of capital outside of the United States. These markets often benefit from recently created or newly developing regulatory structures that are more adaptive to the complexity and increasing pace of innovation. At the same time, the increasing interconnectedness of the global capital markets poses new challenges: an event in one jurisdiction may ripple through to other jurisdictions as we have witnessed firsthand in our securitization markets.

In addition, improvements in information technology and information flows have led to innovative, risk-diversifying, and often sophisticated financial products and trading strategies. However, the complexity intrinsic to some of these innovations may inhibit investors and other market participants from properly evaluating their risks.

Further, the growing institutionalization of the capital markets has provided markets with liquidity, pricing efficiency, and risk dispersion and has encouraged product innovation and complexity. At the same time, these institutions can employ significant degrees of leverage and more correlated trading strategies with the potential for broad market disruptions.

Finally, the convergence of financial services providers and financial products has increased over the past decade. Financial intermediaries and trading platforms are converging. Financial products may have insurance, banking, securities, and futures components.

These developments also pressure the U.S. regulatory structure, exposing regulatory gaps and redundancies. As is evident in the topics that I will emphasize next, the U.S. regulatory structure reflects a system, much of it created over 70 years ago, grappling to keep pace with market evolutions and facing increasing difficulties at times in preventing and anticipating financial crises.

Treasury never intended our recently released *Blueprint for a Modernized Regulatory Structure* (Blueprint) to be responsive to current market events. The analysis and rationale behind our Blueprint recommendations are instructive, however, as we move through this extraordinary period in our capital markets.

Depository Charters

An honest discussion about the evolution of our capital markets and the attendant changes to our regulatory structure would be incomplete without looking closely at the charters of our depository institutions. It requires an examination of why Congress decided to create organizations. This requires a willingness to challenge the status quo. Candid self-analysis is critical to evolutionary and progressive change. Change of this type is often and inevitably met with those who have an interest in keeping things the way they are.

A key principle in Treasury's analysis of these issues is that federal prudential regulation and oversight should accompany the provision of federal support, such as federal deposit insurance. While the states and the federal government have jointly provided prudential regulation of depository institutions over time, the responsibility ultimately falls back to the federal government for the deposit insurance program and the overall solvency of the system.

In our Blueprint, our goal was to set forth issues that we should be thinking about in the long-term. The overarching issue driving our review of banking charters was to establish a level playing field for all federally insured depository institutions. Competition should take place broadly across different types of financial institutions. The most efficient way to get there is to establish a uniform charter, and let competition take place on the basis of competitive market factors instead of regulatory factors.

Charter choice, whether through multiple federal charters or a state charter, had an important place in our history. But, it is decades of political inertia that got us where we are today. The world is different, and intervening changes over the years have made many of the charter distinctions unnecessarily inefficient and costly to the public that utilizes these depository institutions and to the institutions themselves.

Choosing a regulator for an insured depository should not be a fundamental business decision. The overall charter consolidation process and reorganization of regulatory responsibilities in the Blueprint will take care of many tertiary issues associated with outdated regulatory burden.

This is the case with the federal thrift charter and the Office of Thrift Supervision, the OTS. The thrift charter is no longer necessary to ensure sufficient residential mortgage loans availability for U.S. consumers, which was the charter's primary purpose. As a step towards a more rational structure for depository institutions we concluded that the thrift charter has run its course and should be discontinued.

Another clear example of the need for a fresh look at our depository institution charters is holding company oversight. The type and features of holding company oversight is tied to the type of charter. Commercial banks are regulated at the holding company level by the Federal Reserve. For entities electing the thrift charter, the OTS provides holding company regulation, which provides a set of different and less restrictive requirements. And, parents of industrial loan companies are not subject to any holding company supervision. If the basis of holding company oversight is to protect the assets of the insured depository, how can this differing treatment make sense?

Few people would argue, and it is largely not permitted anyway, that different bank charters should have different bank level regulations surrounding safety and soundness. Likewise, while developing new activities could serve as some motivation for different charters, at least for banks, activities have converged to a large degree to those permissible for national banks.

The goal should be create a level playing field where competition among financial institutions can take place on an economic and marketplace basis, rather than on the basis of regulatory differences. For activities within the bank, all insured depository institutions would be subject to the same broad rules and could be modeled on activities that are authorized for national banks today.

SEC and CFTC Merger

As you are all well aware, we believe that there should be a merger of the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC). Treasury believes that the realities of the current marketplace, such as the convergence of futures and securities products and market participants, and globalization and its resulting pressures, make it increasingly difficult to rationalize separate regulatory regimes.

Treasury was careful in not recommending an immediate regulatory combination, but a merger preceded by a number of steps to ensure an effective and smooth transition. In making this recommendation, Treasury noted particularly the benefits of several of the process-oriented changes or modernizations that the Commodity Futures Modernization Act of 2000 (CFMA) brought to the futures markets. Regulation of securities markets, where the amount of change in the past decade has been staggering, also warrants this sort of modernization.

In this context, Treasury has made a series of recommendations to modernize securities regulation. First, the SEC should to adopt core principles for clearing agencies and securities exchanges, such as those relating to operational and risk management practices, similar to those adopted for the equivalent futures market participants under the CFMA.

In addition, the SEC should expedite its rule approval process for exchanges and other self-regulatory organizations. The SEC has made adjustments to this rule approval process in the past. This is all the more important today with exchanges' rapidly evolving electronic trading systems whose rules must be frequently adjusted for operational efficacy and market integrity.

A close look at these recommendations make plain that we are trying to improve some of the processes by which the SEC responds to a dynamic marketplace. These recommendations are not, as some have indicated, a push to morph the SEC into the CFTC or vice versa. The choice is not binary and we attempted to create a process where the strengths of each agency could be preserved.

Market Stability Regulation

Our Blueprint offered a stepping-stone approach to a new way to think about our capital markets regulatory structure – to utilize better market forces while improving the line of sight and mission of our regulators. We expect a thoughtful and deliberate discussion balancing the need for better, more modernized, regulation, while recognizing that regulation alone cannot and will not weed out all financial instability.

We saw an omission in our current regulatory structure; no regulatory body is charged specifically and exclusively to focus on the overall conditions of market stability that could impact the real economy.

Typically, the market stability role is associated with the central bank. Most central banks have a general responsibility to achieve macroeconomic stability through the formation of monetary policy. In the United States, the Federal Reserve plays this role with the goal of promoting overall macroeconomic stability in terms of output and prices. In normal economic conditions, market stability and macroeconomic stability should go hand-in-hand. But as the current conditions in credit markets and other past episodes of financial instability illustrate the traditional toolbox of monetary policy and the regulatory framework might not be well-suited to deal with transmission of financial shocks to the real economy in today's financial markets.

This is why we recommended recasting the role of the Federal Reserve as our market stability regulator to expand its assessment and authority over potential risks in the overall financial system, including correlations and common exposures across financial institutions. This contrasts with its existing regulatory authority that focuses primarily on the health of individual financial institutions.

Undoubtedly, the tasks of the market stability regulator would be difficult. We do not believe that we can eliminate all future bouts of financial instability. In a dynamic market economy it is impossible to eliminate instability through regulation.

It is interesting to note that this current period in financial market stress has created an important change in vocabulary. For years, public policy makers have struggled with the notion that certain institutions could be deemed "too big to fail". Now, we should consider whether certain firms are "too interconnected to fail". And, if so, what can we do to address this concern.

Monitoring the interconnectivity embedded in our networks of financial institutions is a key attribute of market stability regulation. Obvious focus points here are counterparty risk exposures – whether they occur through standard credit instruments, credit default swaps, credit insurance, or other means; the operation of market structures – whether established on a formal or informal basis; and general practices that could cause problems for the overall financial network. I note many of these topics are issues of focus today.

This reform is not meant to supplant market forces. It is intended to complement them with new and broad authority. This process is what some have referred to as "leaning against the wind" in an attempt to prevent broad economic dislocations caused by potential excesses. I would agree, so long as the lean can be calibrated based on the conditions of the storm and the effectiveness of the regulators initial actions.

This would not be an easy task. In addition to the difficulty of determining just where and when to lean against the wind there could be a tendency of a regulator to lean too heavily simply to avoid blame for any ensuing financial instability. Moreover, regulated entities could push back, alleging regulatory over-reach. But if we clearly understand that this process will not prevent all financial instability and that the dynamic and innovative aspects of financial markets must be preserved, then it is a process worth trying.

Near-Term Market Stability Steps to Consider

The recent challenges in credit markets illustrates that the world has changed. While broader changes regarding regulatory structure are debated, we need to think continually about what steps can be considered now. For example, one obvious question is the proper regulatory oversight of investment banks, especially the largest firms, the SEC's consolidated supervisory entities (CSEs). Right now, the Federal Reserve and the SEC are working constructively together while the primary dealers have access to the Federal Reserve's liquidity facilities. If the Federal Reserve is going to lend to the CSEs, then it is important it have adequate information about its borrowers.

The SEC and the Federal Reserve are also in the midst of discussions to determine the appropriate arrangement for information sharing going forward. Treasury supports establishing a memorandum of understanding between the SEC and the Federal Reserve. What happens next is a more difficult policy question. We are in the first act of what is a multi-act play. Some decisions seem clear. If firms have access to a government backstop, then there must be a regulatory cost for this benefit. Determining the specifics of this regulatory regime requires a balancing act of somewhat conflicting policy objectives.

Many other issues still need to be resolved. Some question whether the primary dealers' access to the Federal Reserve's liquidity facilities is temporary, which has an impact on behavior.

Others believe the increasing complexity of financial transactions and structure of financial institutions is a logical reason for extending bank-like regulation to additional firms. Greater complexity has not developed in a vacuum. While new financial products and complex risk-hedging strategies provide the benefit of wider risk dispersion, if market participants and supervisors cannot evaluate fully the risk profiles of the financial institutions using these products, then it remains unclear that innovation has reduced risk.

It seems clear that we need to improve how we regulate complex financial firms. Policymakers have begun this process in earnest and should find resolution in the near-term, which certainly will result in further coordination and information sharing among regulators.

These are incredibly complex matters. As we undergo this process, there are several issues we should consider.

First, we should be concerned about the consequences of forcing innovation and risk-taking decline to levels below what the market would normally allow. This could inhibit overall economic growth and could push market-permitted risk-taking to those firms not swept into broader regulatory reach. If that is the case, have we improved overall market stability?

Another issue is putting responsibility on our supervisors that convey unreasonable expectations. This provides a false sense of security to market participants, potentially leading to less market discipline and even greater complexity and opacity in the future that could lead to even greater financial instability. Both of these outcomes are unattractive. But so is the status quo. We need to develop ways to ensure that private institutions, even complex ones, can fail without threatening the real economy. Participants must believe this if they can be expected to discipline each other and this form of discipline is a vital component to a more stable financial system.

Lastly, it is clear that regulation has a critically important role in the quest for a more stable system. We look forward to considering further that role in the coming months. Market stability regulation should reflect a fine balance between protecting the government's interest, allowing for innovation, and harnessing market discipline. It will be difficult to balance these objectives, but if we go into this process understanding that we will never fully eliminate market instability, we have a much better chance of establishing a more stable financial system for the future. Thank you.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 4, 2008
HP-1007

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, June 6, 2008, 11:00 a.m. EDT

Where
Treasury Department
Media Room (Room 4121)
1500 Pennsylvania Ave, 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
U.S. DEPARTMENT OF THE TREASURY

June 4, 2008
HP-1008

Treasurer Anna Escobedo Cabral to Lead Delegation to Vietnam for Global Summit of Women

Treasurer Anna Escobedo Cabral will lead a U.S. delegation to the 2008 Global Summit of Women in Hanoi, Vietnam June 5-7. The summit brings together female business, professional, and governmental leaders to promote economic opportunity for women around the world. The 2008 summit will emphasize the importance or public-private partnerships in advancing the economic status of women.

The Treasurer will deliver remarks Friday on megatrends affecting the world's economies.

More information on the summit is available at: http://www.globewomen.org/summit/Summit.htm.

Who
Treasurer Anna Escobedo Cabral

What
Remarks on Megatrends Affecting the World's Economies

When
Friday, June 6, 9:00 a.m. Local Time

Where
Global Summit of Women
Melia Hanoi Hotel
44B - Ly Thuong Kiet Street
Hanoi, Vietnam

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 4, 2008
HP-1009

U.S. and China to Hold Meeting of the Strategic Economic Dialogue

The fourth Cabinet level meeting of the U.S. – China Strategic Economic Dialogue is scheduled to take place at the U.S. Naval Academy in Annapolis, Md. on June 17 – 18, 2008.

Members of the media seeking press credentials must register online at SED IV Registration by June 11, 2008. A digital passport photo is required.

For more information on the SED visit the Treasury Department website.

A schedule of open press events will be released in the coming weeks.

PRESS ROOM

June 5, 2008
2008-6-5-11-29-17-17247

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 $74,160 million as of the end of that week, compared to $75,116 million as of the end of the prior week.

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

	May 30, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			74,160
(a) Securities	16,028	12,118	28,146
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	15,002	5,978	20,980
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	4,244		
(3) SDRs	9,748		
(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 (-)		-62,000	-62,000		
(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)	74,160
--currencies in SDR basket	74,160
--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.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 5, 2008
HP-1010

Under Secretary for International Affairs David H. McCormick
Testimony Before the House Committee on Financial Services,
Subcommittee on Domestic and
International Monetary Policy, Trade and Technology

Washington – Chairman Gutierrez, Congressman Paul, Members of the Committee, thank you for the opportunity to discuss an issue of global importance with you today – the Clean Technology Fund (CTF).

The CTF is a new multilateral effort to reduce the growth of greenhouse gas emissions in developing countries by helping to finance additional costs of deploying clean energy technologies over dirtier and usually cheaper alternatives.

The President's Fiscal Year 2009 budget includes a $400 million appropriations request for the initial U.S. contribution to the CTF, which will be housed at the World Bank where it will leverage the capital bases of the multilateral development banks (MDBs) and the donations of other contributing countries. The Administration has requested authorization from Congress to commit $2 billion to the multilateral fund over the next three years. We are aiming, along with our donor partners in the G-8 and beyond, at a global effort of up to $10 billion over the next three years with the U.S. as the lead donor.

What Is the Problem?

Let me outline for you the magnitude of the problem that the CTF aims to address and why it is so critical that the United States Government support it.

Since 2002, emerging and developing economies have been responsible for about two-thirds of global GDP growth. While this unprecedented expansion has brought economic opportunities and higher standards of living to these previously impoverished countries, it has also led to surging demand for energy in the power, transport, building, and industrial sectors.

In addition to contributing to higher global energy prices, this accelerating increase in energy demand has led to an alarming growth in greenhouse gas emissions in developing countries. In fact, the greenhouse gas emissions of emerging and developing economies are rising more rapidly than the emissions of developed countries and will soon surpass them. According to the International Energy Agency, by 2030, global demand for energy will increase by over 50%, with almost three fourths of this increase coming from a handful of developing countries (Brazil, China, India, Indonesia, Mexico, and South Africa).

Currently, most developing countries are focused on pursuing the most cost-effective way to grow their economies, feed their citizens, and raise their standard of living. Thus, they tend to invest in the available energy technologies that can provide them the most economic output at the least cost. However, each time they invest in a dirty technology, such as a sub-critical coal plant with a 30 year life span, the harder and more expensive it will be for them to mitigate the resulting climatic effects in the future.

Estimates of the cost to encourage investments in lower carbon energy technology and infrastructure could be enormous. The World Bank estimates that the price tag to pay for the incremental costs to deploy clean energy technologies in the power sector alone in the developing world will be $30 billion annually.

If we take no action to provide developing countries with the right incentives, their investments today could lock in a legacy of highly-polluting, less efficient technologies for which we would all eventually pay through the accelerated effects of climate change.

What is the Response?

In response to this growing global challenge, the United States, UK, and Japan, have been working multilaterally with other G-8 countries and other potential donor and recipient countries to create an international clean technology fund to help developing countries deploy clean energy technologies. Since September 2007, Secretary Paulson, at the request of President Bush, has led U.S. efforts to negotiate the development of the Fund with our international partners. In his 2008 State of the Union, President Bush highlighted the fund.

The proposed Fund has three major objectives: first, to reduce emissions growth in developing countries through the accelerated deployment of clean technologies; second, to stimulate and leverage private sector investment in existing clean technologies; and third, to promote international cooperation on climate change in the context of pursuing a future climate change agreement.

How Will the CTF Work?

The CTF will help developing countries finance the additional costs of deploying clean technologies over dirtier alternatives. In short, the CTF will help developing countries make the choice between deploying clean technologies and conventional technologies economically neutral. The CTF will not cover the entire cost of any project. It will help cover that portion of a project cost needed to reach the point of economic viability. National governments and private sponsors will be responsible for the bulk of project financing.

The CTF will be a multilateral trust fund administered by the World Bank, and implemented through all of the multilateral development banks (MDBs). It will be able to leverage the resources of the MDBs--which collectively lent over $55 billion in 2007 for international development--and the private sector to finance clean technology projects.

The Fund will invite developing countries, with an emphasis on those with high expected emissions growth, to submit requests for CTF support to finance energy, transport or other projects with significant emissions reduction potential, including large-scale energy efficiency projects. To be eligible to receive funds, developing countries will be required to work with the World Bank to develop investment strategies that are based on national plans for low carbon growth.

The Fund will use a mix of concessional loans, grants, equity investment, and credit guarantees to finance any additional cost of deploying clean technologies. For example, if the difference between building a traditional fossil fuel power plant and a wind farm in a recipient country were $10 million, the CTF could help the recipient country finance the additional cost associated with the wind farm. This support would come as part of an overall financing package for the project that would involve MDB loans or guarantees as well as international private financing and local resources.

Status of the Fund

The United States, the United Kingdom, and Japan are currently working with other potential donors in the G-8 and beyond to launch the CTF later this summer with project funding likely beginning by the end of the year.

Most recently, on May 21 and 22, representatives from the Treasury Department participated in the final design meeting for the CTF hosted by the World Bank in Potsdam, Germany where potential donor and recipient countries reached agreement on general parameters of how the fund will work and how it will be governed. There is now broad support for the CTF among donor and recipient countries alike.

I want to underscore the significance of this broad support. Given the very different views in the developed and developing countries on how to address climate change, I believe that this support for the CTF presents the United States with a unique opportunity.

Through U.S. leadership and involvement, I believe that the CTF will do more than make an immediate impact on emissions growth in the developing world. I believe that it will contribute to building the kind of trust between developed and developing countries that will be necessary if a new UN climate arrangement is to be reached.

Conclusion

The CTF is one important step that the United States can take along with the other developed countries to demonstrate leadership and to contribute constructively to broader international efforts to mitigate the effects of climate change on our planet and its people.

I look forward to working with Congress on this effort and welcome your questions.

Thank you.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 5, 2008
HP-1011

Treasury Designates Gulf-Based al Qaida Financiers

Washington - The U.S. Department of the Treasury today designated three individuals for providing financial and material support to al Qaida.

"These three dangerous individuals must be stopped from further facilitating terrorism," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "The global community should act swiftly to prohibit them from using the financial system and from traveling internationally."

Khalifa Muhammad Turki al-Subaiy and 'Abd al-Rahman Muhammad Jaffar 'Ali were convicted by the Bahraini High Criminal Court in January 2008 for financing terrorism, undergoing terrorist training, facilitating the travel of others abroad to receive terrorist training, and for membership in a terrorist organization. Adil Muhammad Mahmud Abd al-Khaliq was arrested in the United Arab Emirates (UAE) in January 2007 on charges of being a member of the terrorist groups al Qaida and the Libyan Islamic Fighting Group (LIFG).

These individuals were designated under Executive Order 13224, which targets terrorists and those providing financial, technological, or material support to terrorists or acts of terrorism. Any assets these designees have under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with the designees.

Identifying Information

KHALIFA MUHAMMAD TURKI AL-SUBAIY

AKAs:
Khalifa Mohd Turki Alsubaie
Khalifa Mohd Turki al-Subaie
Khalifa Al-Subayi
Khalifa Turki bin Muhammad bin al-Suaiy
Citizenship:
Qatari
DOB:
January 1, 1965
Qatar Passport:
00685868

Qatar Identity Card:
26563400140

Khalifa Muhammad Turki al-Subaiy is a Qatar-based terrorist financier and facilitator who has provided financial support to, and acted on behalf of, al Qaida senior leadership, including senior al Qaida leader Khalid Sheikh Mohammed (KSM) prior to KSM's capture in March 2003. Al-Subaiy has provided financial support to al Qaida senior leadership in Pakistan's tribal region, and has also worked with senior al Qaida facilitators to move extremist recruits to al Qaida training camps in Pakistan. In addition, al-Subaiy has served as a diplomatic and communications conduit between al Qaida and third parties in the Middle East.

In January 2008, al-Subaiy was convicted in absentia by the Bahraini High Criminal Court for financing terrorism, undergoing terrorist training, facilitating the travel of others abroad to receive terrorist training, and for membership in a terrorist organization. He was subsequently arrested in Qatar in March 2008, where he is currently serving his sentence.

`ABD AL-RAHMAN MUHAMMAD JAFFAR `ALI

AKAs:
`Abd al-Rahman Muhammad Jaffir
`Abd al-Rahman Muhammad Jafir `Ali
Abd al-Rahman Jaffir Ali
Abdul Rahman Mohamed Jaffer Ali
Abdulrahman Mohammad Jaffar
`Ali Al-Khal
Abu Muhammad Al-Khal
Nationality:
Bahraini

DOB:
January 15, 1968
POB:
Muharraq, Bahrain

`Abd al-Rahman Muhammad Jaffar `Ali is a Bahrain-based al Qaida financier and facilitator who has provided significant funding to al Qaida. `Ali facilitated the movement of money to a senior al Qaida facilitator in Iran. He has also provided his personal funds for use by an al Qaida recruit.

In January 2008, `Ali was convicted by the Bahraini High Criminal Court for financing terrorism, undergoing terrorist training, facilitating the travel of others abroad to receive terrorist training, and for membership in a terrorist organization. `Ali was released shortly after the announcement of the verdict, and, with credit for time served, has completed his sentence.

ADIL MUHAMMAD MAHMUD ABD AL-KHALIQ

AKAs:
Adel Mohamed Mahmoud Abdul Khaliq
Adel Mohamed Mahmood Abdul Khaled
POB:
Bahrain
DOB:
March 2, 1984
Bahraini Passport:
1632207

For several years, Adil Muhammad Mahmud Abd al-Khaliq has acted for or on behalf of al Qaida senior leaders and has provided financial, material, and logistical support to al Qaida and the Libyan Islamic Fighting Group (LIFG). In 2004, Abd al-Khaliq was recruited by al Qaida to access sources of funding and to procure reliable equipment to expand al Qaida operations in Afghanistan – ultimately to carry out larger attacks there. Abd al-Khaliq also traveled to Waziristan, Pakistan, for terrorist training and to take part in "jihad" in Afghanistan against Coalition forces. His training included instruction in the use of AK-47 assault rifles and explosives. Abd al-Khaliq resided in al Qaida, Taliban, and LIFG safehouses during his training period.

Between 2004 and 2007, Abd al-Khaliq traveled to Iran five times on behalf of al Qaida and the LIFG for his facilitation duties. During each of these trips, he met with senior al Qaida facilitators. During this same timeframe, Abd al-Khaliq provided material support to al Qaida and the LIFG by equipping them with electrical parts used in explosives, laptop computers, jackets, GPS devices, and other equipment. Additionally, Abd al-Khaliq arranged the transportation of fighters, money, and material to LIFG camps in Pakistan.

In January 2007, Abd al-Khaliq was arrested in the United Arab Emirates (UAE) on charges of being a member of the terrorist groups al Qaida and the LIFG. Following his conviction in the UAE in late 2007, Abd al-Khaliq was transferred in early 2008 to Bahraini custody to serve out the remainder of his sentence.

June 6, 2008
hp-1012

Treasurer Anna Escobedo Cabral Remarks at Global Summit of Women in Vietnam

Hanoi, Vietnam - Thank you for the generous introduction. I am pleased to be at the 18th Global Summit of Women -- the foremost international forum regarding women's issues. I am proud to be in such distinguished company, including female government ministers, business executives, NGO leaders, entrepreneurs, and professionals from more than 60 countries. I have no doubt this will be a successful summit, which will expand opportunity and accelerate women's economic progress worldwide.

I would like to express special thanks to the talented Summit President Irene Natividad, as well as to Georgette Tan (VP Communications, MasterCard) and Xiaoyah Zhao (Senior VP, GfK Roper) for their insightful presentations.

Also, I would like to extend a special note of gratitude to the government and the people of Vietnam for their extraordinary effort in serving as host to this year's summit and for their friendliness and gracious hospitality. A Vietnamese proverb says, "Never forget benefits done you, regardless how small." Certainly, I shall not forget the kindness – both large and small - shown to me this week.

U.S. President Bush, Secretary of State Rice, and Treasury Secretary Paulson visited Hanoi in late 2006 for the Asia-Pacific Economic Cooperation Summit. They came with many messages, but with several themes in common – praise for the people of Vietnam for their tremendous economic growth in the past decades and great support for the people and the economies of Asia. Today, I hope to reaffirm that message.

I will be addressing the topic of "Megatrends Affecting the World's Economies." Although this topic is a broad one, I have narrowed my remarks to demographic trends, such as increased population and aging in Asia and how these trends affect women and the economy. Also, I will discuss the trend of females successfully using microfinance to decrease poverty, and an issue that I hope is quickly becoming a global trend, financial literacy. But first, I will begin with a broad discussion of the economy.

INTRODUCTION

Asia is the fastest growing economy and one of the most dynamic regions in the world. It is of central importance to the global economy, has attracted the attention of investors and entrepreneurs from around the world, and continues to grow. From India to Japan and from China to Singapore, each country is on its own economic path to the future, but each is inextricably linked. Globally, each of us shares the benefits and responsibilities of expanding economic prosperity.

Over the past year, critical developments in the global markets have led to mounting concerns about whether Asia can continue its impressive economic performance. While the recent market turmoil has had limited direct effect on most Asian economies, the slowdown in the United States and Europe has begun to impact demand for exports from Asia, reinforcing the importance of Asian economies shifting to a model of growth that relies more on domestic demand and less on exports.

U.S. AND GLOBAL ECONOMY

As you are aware, the United States has been experiencing some financial market turmoil since mid-2007 which has had global implications. A variety of factors led up to the problem – easy credit conditions, a decline in mortgage and other credit lending standards, increasingly complex financial instruments and structures, excessive leverage in our financial system, and investor and credit ratings agency issues.

The President, U.S. Treasury Secretary Paulson and other leading policymakers in the United States responded swiftly to help stabilize markets and reduce the impact on the economy, while at the same time, avoiding regulations and actions that would stifle innovation or hinder self-correction.

The U.S. implemented quick policies such as urging banks to recognize and report losses and raise additional capital, developing initiatives to help keep people in their homes, and enacting a $150 billion economic stimulus package to support consumer and business spending. Also, the US Federal Reserve has taken focused actions to protect the financial system. Already, we are beginning to see modest yet positive effects of these actions. We continue to work on developing longer-term solutions to strengthen financial markets and fix the weaknesses that contributed to the turmoil in global financial markets.

It is also clear that the response must be both a domestic and an international one. So, Treasury is working closely with counterparts in the G7 and other major economies around the world to address market instability. The Financial Stability Forum, which brings together the supervisors, central banks, and finance ministers of major financial centers, has been critical to this effort. The FSF has released a number of recommendations and implementation has begun.

ASIA ECONOMY

U.S. demand for imports has slowed over the past year, affecting exporters in a variety of nations here in Asia and across the globe. However, in the midst of a US, and to a lesser extent, European slowdown, Asia has faired relatively well. Economic growth in Asia remains somewhat buoyant and appears to be a brighter spot in terms of growth opportunities.

In recent decades, Asia has enjoyed increased entrepreneurial opportunities, improved access to capital markets, increased global trade, and increased consumer spending power. Growth throughout Asia has led to an accumulation in wealth, high savings, and the growth of a strong middle class very quickly. Hundreds of millions have joined, and continue to join, the middle class in the Asia-Pacific. This shift to growth driven by domestic demand will help Asia enjoy sustained and resilient growth, while also increasing the living standards of people throughout the region.

Perhaps one of the greatest examples of economic growth in Asia is here in Vietnam. Since 1975, Vietnam has been transformed. It is now one of Asia's fastest-developing countries, with annual growth averaging 7.5 percent over the past decade. It has made impressive progress in reducing poverty. It is a rising diplomatic power. And, it has escaped deep poverty by embracing free trade.

In fact, over the past two decades, many Asian countries have made tremendous progress in the fight against poverty. As home to two-thirds of the world's poor, poverty remains one of the most pressing issues in Asia today, and it remains an issue of great importance to women, who are often disproportionately affected. Private sector development is helping, especially better financial inclusion and microfinance.

MICROFINANCE

Women in Asia have long known their strength in managing household assets. In Japan, China, Vietnam, and many other Asian countries, women are often the primary caretakers of money matters in the family. So it comes as no surprise that women achieve great success when given access to resources through microfinance and microcredit.

There is overwhelming evidence from developing regions of the world that women's investments help families, help the economy, and reduce poverty in the developing world.

Recently, *The Washington Post* ran a fascinating story about women being key in the reconstruction of Rwanda's economy. That story also cited that in Bangladesh, the Grameen Bank, the best-known of all micro-credit organizations, has focused its microloans on women and had success rates far higher for female than for male borrowers.

It goes on to mention that, "In India's great economic transformation of the past 15 years, states that have the highest percentage of women in the labor force have grown the fastest as well as had the largest reductions in poverty, according to the World Bank."

Microloan programs across the developing world have shown similar results.

POPULATION GROWTH IN ASIA

An interesting demographic trend in Asia with economic implications is rapid population growth. Over the past half-century, this population explosion captured the attention of the scholars and policymakers around the globe. Today, however, population growth has slowed and the demographic boom is essentially over. But the factors that contributed to the boom – better healthcare, and longer lifespans – remain for both women and men.

The results of this rapid population growth, combined with economic growth, have given the region much greater role in global economic affairs. As of mid-2000, roughly three-fifths of the world's population resided in Asia. But as the population in this region ages, Asia will face new challenges.

AGING POPULATION

Age patterns vary enormously in Asia. In places like Afghanistan, Pakistan, Laos, and Cambodia, the median age in the year 2000 was below twenty years old. Vietnam, too, has a relatively young population. However, in the coming years, most population centers in Asia are expected to age appreciably.

In many countries, population aging is already well underway. Thailand, Singapore, South Korea, and South India are beginning to see these increases. Japan, already considered one of the "grayest" countries on earth, is one of the most extreme cases.

While aging will pose serious challenges to the region's economies, it will also create new economic opportunities over the decades ahead, especially in Japan and China. With more and more people of retirement age, there will be less working-age people to support growth and fund rising public pension expenditures. Countries with stronger national pension systems in place and strong public health care sectors will be better equipped to handle aging populations in the decades ahead. In many economies, fewer traditional workers will be in the workforce, and more nontraditional wage-earners, including more women, will have to play an even greater role in the workforces throughout Asia in order to support growth.

Also, families will bear an increasing financial burden of taking care of older individuals. Caring for aging family members, educating their children, and saving for their own retirement will create an increasing financial burden for women in Asia. For women, knowing how to save and invest wisely will become even more important. That's where financial literacy comes in.

FINANCIAL LITERACY

Financial Literacy – knowing how to save, plan for retirement, understanding credit, and understanding the importance of using banks and financial institutions – is a need we all share.

As Treasurer, this is an issue that I often promote in the United States and more recently, abroad. I believe that the best approach to complex financial issues is prevention. If we figure out how to help families before they get into trouble – maybe by taking simple steps such as making a daily budget, or educating young people about savings – we can improve lives.

Further, it is in important to ensure that people become banked use the banking system and that those banks serve not only the wealthy, but the middle-class and those at the other end of the spectrum. It is important that people have insurance. It is important that as the retirement system continues to change that people understand their investment decisions. And, it is important that no matter what financial system we have, that people have access to, and understand how to use that system.

We know that a country's low savings rate and high debt burden are drags on its economic growth. We see this happening in many parts of the world. In many countries in Asia, it is not low saving, but rather inefficient saving, that presents the biggest challenge. As retirement and education costs increase, it becomes more and more important that households have access to more and better investment options, so that they can meet their future financial needs while also being able to consume more now. By educating people about these issues, we can make a positive impact on the world economy.

International financial literacy efforts are on the rise. Recently, the Department of the Treasury had its first conference on this issue with some of the top world leaders in the field. I hope this trend is one that continues to grow and flourish.

CONCLUSION

I've often heard, "When in doubt, predict that the present trend will continue." If this is true, it would be a generally good sign for Asia, with its increasingly strong economies and bright future.

It is also good news for women, who are leading the charge on so many vital issues – eradicating poverty, ensuring quality education for our young people, protecting the environment, and creating better lives for their families through control of family budgets. I am proud to be here today with all of you gifted and wonderful women who are doing so much to better the lives of people in your respective countries.

In our globally dependent world, it is important that we share best practices and use that knowledge to ensure greater prosperity for us all. I know I have learned a great deal already that I will take home with me. Let's make continuing to share ideas, learn, and help one another a trend we continue for years to come.

Thank you. I'd be happy to take any questions you may have.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 6, 2008
hp-1013

Paulson to Speak on U.S. – China Economic Relations

Secretary Henry M. Paulson, Jr. will deliver remarks next week to the Carnegie Endowment for International Peace on the U.S. – China economic relationship and the upcoming meeting of the Strategic Economic Dialogue (SED). The dialogue, established by Presidents Bush and Hu, is a framework for managing our bilateral economic relationship on a long-term strategic basis. The fourth Cabinet-level meeting will take place June 17-18, 2008 at the U.S. Naval Academy.

Who
Treasury Secretary Henry M. Paulson, Jr.

What
Remarks on U.S.-China Economic Relations

When
Tuesday, June 10, 10:00 a.m. EDT

Where
Carnegie Endowment for International Peace
1779 Massachusetts Avenue, NW
Washington, D.C.

Note Media must register in advance with Trent Perrotto at 202-939-2372 or tperrotto@ceip.org and must be pre-set by 9:50 a.m.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 6, 2008
hp-1014

Week 6 Wrap-Up: Treasury Sent 9.143 Million Stimulus Payments This Week

This week the Treasury Department sent out 9.143 million economic stimulus payments to American households totaling $6.789 billion. So far, Treasury has sent out 66.576 million total economic stimulus payments totaling $56.831 billion.

Cumulative Total

Total Number of Payments: 66.576 million
Total Amount of Payments: $56.831 billion

Week Six (June 2-6)

Total Number of Payments 9.143 million
Total Amount of Payments: $6.789 billion

Week Five (May 26-30)

Total Number of Payments: 5.757 million
Total Amount of Payments: $4.320 billion

Week Four (May 19-23)

Total Number of Payments: 6.211 million
Total Amount of Payments: $4.927 billion

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28 and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 6, 2008
hp-1015

Treasury Economic Update 6.6.08

"Today's jobs data reflect the slow growth of the past two quarters and the headwinds the U.S. economy faces from energy prices, the housing correction, and credit market strains. We expect the stimulus payments now going out to have a meaningful impact in supporting family and business spending this year while we work through the current challenges."
Assistant Secretary Phillip Swagel, June 6, 2008

Employment Fell in May:

Job Growth: Payroll employment fell by 49,000 in May, following a decrease of 28,000 in April. The United States has added about 8 million jobs since August 2003. Employment increased in 41 states and the District of Columbia over the year ending in April. *(Last updated: June 6, 2008)*

Unemployment: The unemployment rate was 5.5 percent in May, up from 5.0 percent in April. *(Last updated: June 6, 2008)*

Signs of Economic Strength Include Exports and Low Inflation:

Exports: Strong global growth is boosting U.S. exports, which grew by 8.8 percent over the past 4 quarters. *(Last updated: May 29, 2008)*

Inflation: Core inflation remains contained. The consumer price index excluding food and energy rose 2.3 percent over the 12 months ending in April. *(Last updated: May 14, 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--stimulus payments 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 stimulus for the economy in 2008, providing a meaningful boost to the U.S. economy in 2008. *(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.

www.treas.gov/economic-plan

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 10, 2008
hp-1016

Remarks by Secretary Henry M. Paulson, Jr. On the Fourth Meeting of the U.S.-China Strategic Economic Dialogue at the Carnegie Endowment for International Peace

Washington - Thank you Jessica, and thank you to the Carnegie Endowment for International Peace for the opportunity to speak with you.

Today, as has been the case each day since the Sichuan earthquake, our thoughts and prayers are with the Chinese people as they work to meet the challenges resulting from this terrible tragedy. As President Bush has said, the United States stands ready to help in any way possible. Our government, companies, charities and individuals have already donated or pledged over $100 million in goods, services and money. We are committed to help China rebuild the devastated area.

The U.S. – China economic relationship is complex, broad and important to both our countries and to the world economy. Through the on-going, dynamic and respectful discussions of our Strategic Economic Dialogue, the SED, the relationship is also growing in a positive direction.

A Preview of the Fourth Strategic Economic Dialogue

I look forward to making further progress on shared objectives at the fourth meeting of the SED next week. This meeting will be the first opportunity for my Cabinet colleagues to collectively meet and work with China's newly appointed leadership team. We welcome our new Chinese colleagues and together we will demonstrate that the SED can effectively manage our economic relationship through a period of leadership transition while laying a course of concrete action to achieve our strategic objectives. In particular, I look forward to welcoming my new counterpart, Vice Premier Wang Qishan, in his new role for his country.

A critical goal for the 21st century is to get the U.S.-China economic relationship "right." At next week's SED we will have a robust discussion of our economic relationship, envisioning a future of sustainable economic growth over the next decade.

And so the SED meeting next week will focus on five areas. These are: managing financial and macroeconomic cycles; developing human capital; the benefits of trade and open markets; enhancing investment; and advancing joint opportunities for cooperation in energy and the environment.

The SED has brought progress faster and more broadly on issues important to the U.S. and global economy than would have been possible otherwise. Success has come through on-going collaboration, candid high-level discussions, understanding each other's priorities and interests, and surmounting particular bureaucratic interests by working with the Chinese government as a whole.

It is clear that our strategy for robust engagement with China – intensive dialogue but with resort to WTO dispute settlement and WTO-sanctioned trade remedies if needed – is more productive than protectionist policies or legislation.

Managing financial and macroeconomic cycles will be our first discussion topic next week. Both the United States and the Chinese economies face current challenges, including adjusting to higher energy and food prices. The United States is working through a housing market correction and re-pricing of risk in credit markets.

China is grappling with rising inflation and growing internal and external macroeconomic imbalances. China's imbalances stem largely from an economic structure that has become too heavily dependent on industry, investment and exports. This has led to a growing trade surplus, high energy use, environmental degradation and rising domestic inequality.

Continued exchange rate reform is among the macroeconomic and structural measures China should take. Exchange rate reform will be critical in meeting China's short and medium-term challenges. Greater exchange rate flexibility will make Chinese monetary policy more effective in controlling inflation and will help bring about the structural economic shifts China needs to reduce its imbalances. Despite the progress that China has made, including almost 20 percent RMB appreciation against the dollar since July 2005, continued movement and greater flexibility are still needed. Increasing the pace of reform of China's financial services markets is also important to further support the growth and development of China's economy.

A major contributor to the structural imbalances is a saving rate challenge in each of our economies. In the United States our saving rate is too low. In China it is too high. In order to effectively deal with this issue, we must address how to adequately provide for our aging populations, including the role of private and public insurance and financing for social services such as health care and retirement. Inadequate social safety nets in China lead to high levels of precautionary saving and are a major contributor to low domestic consumption and the large and rising trade surplus.

In the United States rising health care costs and our aging population are creating public policy challenges. Restraining the growth of health care costs and reforming our Medicare and Social Security programs are critical to prevent a looming fiscal problem. These steps are necessary and important measures to help us address our low saving rate and the resulting imbalances.

Increased openness to competition and international trade is critical for continued economic growth in both our nations and for the future prosperity of our people. We will discuss steps that we can take to ensure that our countries, and the world economy, remain open to trade.

We will examine how we can promote mutual interests, including enhancing innovation and developing and protecting intellectual property intensive industries, improving food and product quality and safety, stopping the global trade in fake products, furthering transparency and rule of law, and supporting green energy and environmental product markets.

We will build on previous progress, such as the civil aviation agreement that resulted in a new non-stop flight between Atlanta and Shanghai this past March, and a new group leisure travel agreement that is estimated to bring up to 100 million Chinese travelers to the United States over the next 15 years, creating jobs and growth here at home.

America's policy of open investment is one of our predominant economic strengths. Foreign direct investment stimulates competitiveness, growth, jobs and productivity. At the fourth round of the SED, we will discuss the best way to promote and protect bilateral investment and counter protectionist pressures. We will also discuss the concerns of American companies that China's investment regulations are opaque and seem in many ways to be designed to favor China's "national champions."

The value of the SED to economic issues is clear. The SED also increases U.S. – China collaboration on security and other key international issues, making our overall relationship stronger and broader.

Energy Security and Environmental Sustainability

Finally, next week we will also focus on energy security and environmental sustainability. I will elaborate further on that today.

Energy Security

The U.S. economy faces significant headwinds from a number of factors including rising energy prices. Gasoline, food, and many common household items have become more expensive for American families. There is an urgent need for U.S. energy policies to significantly evolve to ensure U.S. energy security.

Since the beginning of the Bush Administration, the United States has spent nearly $18 billion to research, develop, promote and bring clean and efficient technologies to market. We continue to develop new strategies – last December President Bush signed the Energy Independence and Security Act, which responded to his "Twenty in Ten" challenge to improve vehicle fuel economy and increase alternative fuels. But much more is needed if we are to adequately address our energy security challenges.

As the two largest net importers of oil, China and the United States face similar challenges. We have a strong and shared interest in avoiding supply disruptions, increasing energy efficiency, promoting the efficiency and transparency of the global energy markets to the benefit of all oil importing nations, and expanding the availability and use of alternative energy sources.

To power its economic growth China has become the world's largest coal producer and consumer. In 2006, it became the second largest purchaser of new vehicles, which is one of the key reasons why China has now become the world's third largest consumer of oil.

To find solutions to these shared challenges, the U.S. and China have been working together under the SED to address energy security. We already have an agreement to strengthen cooperation on next generation biofuels, to increase industrial energy efficiency, strengthen cooperation on the certification of energy efficient products, increase cooperation on nuclear safety, and a joint five-year commitment to promote large scale deployment of alternative fuel technologies for vehicles. In conjunction with the International Energy Agency, the IEA, we have also strengthened cooperation on strategic oil reserves.

But to comprehensively address its energy security, China must go beyond these joint efforts. China has made a good start by establishing numerous plans and ambitious goals, highlighted by the Eleventh Five Year Plan, for 2006 to 2010, which established aggressive goals to reduce energy consumption per unit of GDP by 20 percent. China has moved towards meeting some of these goals by reducing energy consumption over 3 percent per unit of GDP output in 2007. While I applaud this continued focus and am encouraged by this progress, further results cannot come fast enough.

The Role of Markets in Promoting Energy Security

As the United States developed, we found that harnessing market forces, combined with strong regulations and enforcement, were powerful tools to support economic growth.

For example, the sulfur dioxide tradable credit system established under the 1990 Clean Air Act has demonstrated how market-driven measures can cost-effectively reduce pollution.

We also learned a costly lesson in the 1970's when we attempted to defy market forces and imposed oil price restrictions. Rather than achieving our intended result, we experienced winter heating oil shortages, supply problems, rationing, and a reduction in domestic oil and gas investment and exploration. In some cases we attempted to control output prices without being able to control input prices, forcing operating losses and large cuts in supply.

China, by setting price controls on fuel, is facing similar consequences today – as can be seen by persistent gasoline and diesel shortages throughout the country. The consequences of these policies also extend to the power sector, where price caps on electricity and fuel contributed to nationwide power outages during snowstorms this past January and February.

The United States learned that price controls interfere with the natural equilibrium of markets to match supply and demand, and lead to shortages. And because market forces can never be completely eliminated, price controls often lead to smuggling and corruption.

Indeed, the best way to deal with economic shocks is to allow markets to operate fully, and with full information. For oil, information on stocks and reserves is particularly important, and therefore it is critical that China and all oil producing countries provide information on their reserves to the IEA.

In the United States, innovation, coupled with market-based policies and regulations that encourage energy efficiency, lead to technological advances that reduce energy consumption. As a result, the consumer benefits and markets evolve and grow. We also achieve a cleaner environment.

The Ten-Year Energy and Environment Cooperation Framework

The U.S. and China both know that tomorrow's economic opportunity requires conserving natural resources today. To focus more sharply on this goal, at last December's SED meeting we announced the beginning of ten years of cooperation on energy and environmental issues.

Working together on this framework will challenge all levels of government, industry, academia and non-governmental organizations to find answers to these and many other questions: How do we reduce dependency on oil and increase energy security? How do we better preserve the natural environment, and prevent greenhouse gas release due to deforestation? How do we meet our energy goals? How do we ensure that our water is clean and safe?

These questions may be answered differently in the United States than in China. Yet, our approaches to finding answers may be similar – to implement proven policies, to educate individuals to make environmentally sound decisions, and to ensure that companies follow regulations designed to protect human health.

Solutions will also require technological breakthroughs and making existing and new technology affordable by reducing market access barriers. I often hear from U.S. companies that they do not sell their technology to willing Chinese buyers for fear that their designs and technology will be stolen. These U.S. exporters' concerns are a significant reason for limited sales of technology-based products. I hear from Chinese government officials that the U.S. technology they need for pollution control is expensive in part due to tariffs and non-tariff barriers. We have a shared interest in resolving these dilemmas, and we can solve them.

Since December, we have been adding details to this framework and we will announce the results of our initial efforts at next week's SED meeting. This cooperation will likely bring innovations that we cannot yet imagine and expand our relationship in many new ways.

We are selecting shared goals, such as reducing dependency on oil. We are defining specific energy targets, such as increasing vehicle fleet fuel efficiency and creating incentives for the development and use of alternative fuels. We are developing action plans for joint projects that will accelerate existing efforts. These action plans will help each country identify policy solutions to improve implementation of existing regulations and incentives, and challenge us to develop even more innovative approaches and answers.

The Environmental Challenges

China's leaders go about this in the face of daunting environmental challenges. According to the World Bank, 16 of the world's 20 most polluted cities are in China. Water quality is deteriorating – 90 percent of all rivers show signs of significant pollution, and 62 percent of water is unsuitable for fish. And although the Chinese government has established laudable environmental protection goals, monitoring and enforcement of environmental regulations remains very weak.

Conservation is one area where both the United States and China have made significant progress in safeguarding the environment. In the United States, through a variety of federal, state and local agencies we conserve, protect and manage natural resources. Private industry and a vibrant non-profit sector further support these efforts.

I applaud China's recent steps and would encourage further progress to develop legislation that would more effectively protect natural habitat. I am also encouraged to know that China is adding 2 million hectares of forest per year to increase forest coverage by 6 percent to combat desertification. According to official Chinese projections, by 2010, 16 percent of China's total territory will be natural reserve areas, and 90 percent of the remaining typical forest and wetland ecosystems, and key national wildlife will effectively be protected.

A Foundation for Progress

The environmental aspects of the ten year framework build upon a solid foundation. We have a memorandum of understanding to combat illegal logging and promote sustainable forest management. And we have launched efforts to help China develop a nationwide program on sulfur dioxide emissions trading. U.S. and Chinese private sector companies are also helping to create the "green" economy. Whether it is the public sector or the private sector, this work is aspirational.

Recent meetings between U.S. and Chinese leaders have shown great promise for collaboration on green buildings, energy efficient infrastructure projects and creating "Eco-cities." China adds 2 billion square meters of new construction every year, and has 40 billion square meters of existing buildings that need retrofitting. China's leaders know that the development of green buildings is a critical need.

As we establish this cooperative framework, my friends in China often ask what can be done about China's immediate energy and environmental challenges. My answer is that China, given its current economic growth and prosperity, can leapfrog the United States and the rest of the world in deploying and using advanced energy and environmental technology.

Adopting advanced technology will increase China's energy efficiency and reduce the emissions of greenhouse gases and harmful pollutants. But bringing this technology to China is hindered by the tariff and non-tariff barriers that China places on environmental goods and services. A high priority should be eliminating barriers on products, goods and services that can improve the health and welfare of the Chinese people.

For example, there is a water membrane technology available right now. If installed properly, it could help local communities take significant steps towards reducing the pollution entering rivers from power plants. That means that within months, some Chinese citizens could have cleaner water. Yet a tariff of 22 percent on water membranes makes this technology too expensive for many communities.

Significant opportunity exists for the United States and China to achieve immediate progress and make long-term strides towards energy security and environmental sustainability. Through a ten year framework of cooperation, I believe that we have the foundation to meet these challenges in a sustained, collaborative manner.

Conclusion

Next week's fourth Strategic Economic Dialogue meeting will move the United States and China even further forward to a stronger economic future. We have kept our economic relationship on an even keel, even during times of stress. We are building upon a shared vision that is possible because of our cooperation, and feasible because of our commitment to the prosperity of our people. Thank you.

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June 10, 2008
HP-1017

Testimony of Deputy Assistant Secretary Jeremiah O. Norton
Before the U.S. House Subcommittee on Capital Markets
Insurance and Government Sponsored Enterprises

Washington - Thank you, Chairman Kanjorski, Ranking Member Pryce, and Members of the Subcommittee for inviting me to appear before you today to discuss the *Insurance Information Act of 2008* (H.R. 5840; Discussion Draft as of June 4, 2008).

The Need for Insurance Regulatory Modernization and Treasury's Blueprint Recommendations

Insurance performs an essential function in our domestic and global economies by providing a mechanism for businesses and individuals to safeguard their assets from a wide variety of risks. Insurance is similar to other financial services in that its cost, safety, and ability to innovate and compete is heavily affected by the substance and structure of its system of regulation.

Unlike banks and other financial institutions that are regulated primarily at the federal level or on a dual federal/state basis, insurance companies in the United States are regulated almost entirely by the States. Over time, the business of providing insurance has developed a more national focus, and the insurance marketplace has become global in nature. The state-based regulatory structure inherently makes the process of developing national products cumbersome and competing in the global marketplace more costly.

On March 31, the Treasury Department ("Treasury") released a report on financial services regulation entitled *Blueprint for a Modernized Financial Regulatory Structure* ("Blueprint"). In addition to making recommendations for a long-term "optimal" regulatory structure, the Blueprint also presents a series of "short-term" and "intermediate-term" recommendations that could, in Treasury's view, improve and reform the U.S. financial services regulatory structure – including the current state-based regulation of insurance.

In the intermediate-term, Treasury recommends the establishment of an optional federal charter (OFC) for insurance. The establishment of an OFC structure would provide insurance market participants with the choice of being regulated at the national level or of continuing to be regulated by a State. A properly constructed OFC insurance regulatory structure should: enhance competition among insurers in national and international markets; increase efficiency; promote more rapid technological change; encourage product innovation; reduce regulatory costs; and provide strong consumer protection.

There currently are pending bills in both the House (H.R. 3200) and Senate (S. 40) entitled "The National Insurance Act of 2007" that would create an OFC and establish a regulator within Treasury. These bills contain many of the core concepts surrounding the establishment of an OFC structure as envisioned in the Blueprint. We look forward to evaluating further the specific provisions of these bills as they move forward.

While an OFC offers the best opportunity to develop a modern and comprehensive system of insurance regulation, Treasury acknowledges that the OFC debate in the Congress is ongoing. At the same time, however, Treasury believes that some aspects of the insurance regulatory regime require immediate attention. In particular, Treasury recommends that the Congress establish an Office of Insurance Oversight within Treasury. This newly established office would be able to focus immediately on key areas of federal interest in the insurance sector, including international insurance issues.

International Insurance Issues

The insurance marketplace operates globally with many significant foreign participants. There is increasing tension among current regulatory systems due to an absence of a clear and settled means for governments to recognize the equivalency of prudential regulation of insurance and reinsurance companies seeking to provide services in other countries. This impairs the ability of U.S.-based firms to compete abroad and the allowance of greater participation of foreign firms in U.S. markets.

In particular, foreign government officials have continued to raise issues associated with the United States having at least 50 different insurance regulators, which makes coordination on international insurance issues difficult for foreign regulators and companies. The National Association of Insurance Commissioners (NAIC) has attempted to fill this void by working closely with international regulators in various areas. The NAIC itself is not a regulator but facilitates communications among the States on many issues, including international insurance regulation. Nevertheless, it is becoming increasingly difficult for the United States to speak consistently and effectively with one voice.

It has become clear to Treasury that there is an immediate need to establish an insurance-sector advisor at the federal level, as well as to create a federal framework to address emerging international insurance regulatory issues. Two examples of such a need include: (1) reinsurance collateral and the perceived unequal treatment of certain foreign reinsurers; and (2) the European Union's (EU) Solvency II directive and how that may impact the competitive position of U.S. firms in Europe.

Reinsurance Collateral

States indirectly regulate unlicensed, non-U.S. reinsurers by setting out the circumstances under which U.S. licensed insurers may take financial statement credit for the reinsurance. Based primarily on the NAIC's model law and regulation, States generally require that unlicensed, non-U.S. reinsurers provide 100 percent collateral to secure their U.S. obligations. By contrast, within the EU, the European Commission through its Reinsurance Directive is eliminating collateral requirements among its EU reinsurers, but not necessarily among non-EU reinsurers.

Non-U.S. reinsurers, foreign government officials, and EU representatives believe such cross-border collateral requirements should be reduced or eliminated between jurisdictions of equivalent regulatory reinsurance supervision. Many believe that there is a strong rationale for this view, and in response, various state insurance commissioners have launched a series of efforts to address the issue and find a pragmatic solution, only to see each of these efforts founder.

Solvency II

Last year, the EU published its Solvency II Framework Directive, which seeks to develop a single EU-wide market in insurance services, create a consolidated oversight structure with strong home country lead supervision of both prudential and regulatory capital authority, and secure a high degree of consumer protection. Solvency II is expected to be adopted by the end of 2008, and EU Member States are expected to implement the directive by 2012. The framework creates a risk-based system for assessing regulatory capital for all insurers and reinsurers on a consolidated basis across all EU Member States, similar in concept to the Basel II framework applicable to banks.

As the EU continues to move toward the implementation of this oversight framework in the insurance sector, it is becoming more apparent that the framework potentially will be at odds with the U.S. regulatory structure for insurance. In particular, it is unlikely that the EU would find the current U.S. state-based regulatory structure "equivalent" for purposes of allowing U.S. insurers to operate within the EU, meaning that U.S. companies operating in Europe would face unspecified regulatory measures that would increase the costs of their operations and place them at a competitive disadvantage.

These issues – reinsurance collateral and Solvency II – have been under discussion for many years between U.S. and European authorities through numerous channels. Despite good and cooperative efforts by all parties, we are seemingly no closer today to finding pragmatic solutions than we were several years ago.

Office of Insurance Oversight within Treasury

As called for by the Blueprint, the Office of Insurance Oversight (Office) would focus immediately on key areas of federal interest in the insurance sector by serving as an advisor to the Secretary of the Treasury on major domestic and international insurance regulatory issues. The Office would also be provided with authority to address international regulatory issues.

Such an office would be able to focus immediately on key areas of federal interest in the insurance sector without the need to create a federal regulatory structure. It would advise the Secretary of the Treasury on major domestic and international policy issues, provide true national regulatory expertise and guidance on the insurance industry and how it relates to the overall economy, and provide such expertise and guidance on legislative issues pending before the Congress.

The Office should be empowered to address international regulatory issues with foreign regulators, a role that is not being played in the non-consolidated state-based regulatory system. In this role, the Office should be the lead in working with the NAIC and state insurance regulators, who would still be primarily responsible for implementing insurance regulatory policies.

For example, the Office could lead the discussions with international regulators on international regulatory issues to develop regulatory agreements that provide for recognition of substantially equivalent prudential measures and regulatory systems with respect to insurance and reinsurance services. This would include recognition agreements providing for reliance upon facets of relevant foreign regulatory systems. Overall, the establishment of federal involvement in these types of agreements would allow for the United States to engage more consistently in dialogue with foreign regulators and enhance the prospects for resolving issues.

The role that the Office would play in U.S. negotiations with foreign governments, authorities, or regulators would be to bring its insurance expertise to the table along with a well-developed uniform U.S. position on insurance regulatory policy. Its focus would be on regulatory matters that are not presently addressed at the federal level. It would not supplant the Commerce Department or other relevant Executive Branch agencies, but would work closely with them. The United States Trade Representative would remain the chief representative of the United States for international trade negotiations, including all negotiations on any matter considered under the auspices of the World Trade Organization and commodity and direct investment negotiations.

As we suggested in the Blueprint, some degree of preemptive authority will be necessary if international regulatory agreements are going to be effective. A number of approaches to preemption could be considered, but a key aspect of establishing the Office is to improve the ability of the United States to deal more effectively with international insurance regulatory issues. Whatever the degree of preemption, the establishment of this Office should further that goal.

Treasury welcomes the introduction of H.R. 5840, the *Insurance Information Act of 2008*, by Subcommittee Chairman Kanjorski and Ranking Member Pryce. This bill would create an office within Treasury very similar to that recommended in the Blueprint.

Overall, Treasury supports the bill's creation of the Office of Insurance Information. Treasury has some concerns, however, we are confident that we can continue to work together to address these as this legislation moves forward.

Conclusion

We appreciate the efforts of the Chairman and Members of the Subcommittee. We look forward to continuing to work with you and the Congress on this important legislation. Thank you.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 10, 2008
HP-1018

Prepared Statement by Treasury Under Secretary David H. McCormick in Advance of G-8 Finance Ministers Meeting

Washington – Good afternoon. The G-8 Finance Ministers will be hosted by Japan in Osaka, Japan on June 13th and 14th. Their discussions will focus on three key areas: the world economy, climate change, and development, which correspond with the key themes of the Japanese G-8 presidency this year.

As typically happens, the Ministers will discuss the global economy, focusing on the near-term prospects for their economies and taking note of the continued strong performance in many emerging markets. Both Japan and Europe had strong first quarters and Secretary Paulson will be especially interested in hearing from other Ministers their assessments of growth prospects and how their economies are coping with financial market headwinds and higher-priced commodities. In addition, a number of Asian countries will attend outreach sessions, giving us a good chance to broaden the world economy discussions.

Oil market developments and high global food prices will factor into the global economy discussions. The vast majority of the run-up in oil prices reflects long-term trends in fundamentals: global economic growth has been consistently strong since 2002 and especially fast among emerging market economies. This strong growth has driven demand for oil while growth of global oil production has been basically flat since 2005. Ministers will likely focus on medium to long-term policies that can affect demand and supply, including developing alternative fuel sources.

On high food prices, the talks are likely to focus on progress to date in meeting emergency humanitarian assistance needs, efforts to ensure that farmers in developing countries have access to yield-enhancing inputs for the next harvest including seeds, pesticides and fertilizers, and plans to improve agricultural productivity in developing countries in the coming years. The United States has consistently contributed about half of global food aid and the President recently requested $1 billion for near-term humanitarian assistance and programs to address challenges in supply. Ministers are also likely to encourage governments to lift food export restrictions and to redouble efforts to conclude an ambitious Doha Agreement in 2008.

Secretary Paulson will tell his G-8 colleagues that the housing correction, financial market turmoil, and high energy prices continue to weigh on the U.S. economy. While we are still working through housing and capital markets issues, and expect to be doing so for some time, we also expect to see a faster pace of U.S. economic growth before the end of the year. We have taken a number of steps to bolster the economy while we weather these challenges. The economic stimulus package, signed into law in February, will provide over $150 billion for businesses and individuals in 2008. We expect these measures will provide a meaningful near-term boost to household and business spending.

The Administration has also led several initiatives to help ease the strain from the housing downturn. We are seeing results. The HOPE NOW alliance reports that since last July, the mortgage industry has helped nearly 1.46 million homeowners stay in their homes. Despite the recent turmoil, I share Secretary Paulson's confidence in the resiliency and flexibility of the U.S. economy. Our long-run economic prospects remain sound.

In addition to policy actions to strengthen the economy in the near term, it is essential to enhance the functioning and stability of the U.S. financial system going forward. The Administration is taking steps to do just that. As you know, the President's Working Group on Financial Markets (PWG) reviewed policy issues and issued its policy statement on March 13. The PWG is now tracking and assessing implementation and will report on progress in the fourth quarter of 2008. At that time, the PWG will consider whether further steps are needed to address weaknesses.

In April the G-7 Finance Ministers and Central Bank Governors endorsed a series of FSF recommendations that complement efforts underway in the United States. These proposals included: strengthening prudential oversight of capital adequacy, liquidity and risk management; enhancing transparency and improved valuation, particularly for structured products; revising and clarifying the role and use of credit ratings; improving the responsiveness of authorities to risks; and, creating robust arrangements for dealing with stress in the financial system.

FSF Chairman Mario Draghi will provide an update on the implementation of the FSF recommendations to G-8 Finance Ministers in Saturday's meeting. We are encouraged by the progress so far to meet these goals, as well as progress implementing the other FSF recommendations. Financial institutions have raised almost $270 billion in new capital since the turmoil began, and will shortly begin making their first half reports, which we expect to comply with leading practices. The Basel Committee on Banking Supervision is on track to issue liquidity guidelines for public comment in July, and IOSCO issued its Code of Conduct for Credit Rating Agencies in May. We look forward to another progress report by the FSF at the G-7 Ministerial meeting in October.

Climate change, an issue of great concern to Secretary Paulson, will be a major subject of discussion during the meeting. Last year, President Bush initiated the Major Economies process to bring the major emitting developed and developing countries together to tackle climate issues and tasked Secretary Paulson with creating an international program to promote clean technology deployment in developing countries. At this meeting, Ministers will review the considerable progress made in establishing the Clean Technology Fund. The Fund is a critical new multilateral effort of the G-8 countries to reduce the rapid growth of greenhouse gas emissions in developing countries by helping them to finance the additional costs of deploying clean energy technologies over cheaper, dirtier alternatives. Late last month we had a successful meeting in Germany which included developed and developing countries and resulted in strong agreement on the parameters of how the Fund will work, how it will be governed, and how it will bring benefits to emerging economies. The Administration strongly supports the Fund and has requested authorization from Congress for a U.S. contribution of $2 billion over three years to the Fund. Japan and the UK have also pledged support, and we anticipate that other countries will soon follow.

Development -- with a particular focus on Africa -- is a key theme of Japan's G-8 presidency. We particularly welcome Japan's decision to focus on the importance of developing the private sector in order to achieve sustainable economic growth. In conversations with Secretary Paulson over the last year, a number of African Finance Ministers have highlighted their commitment to creating an enabling environment for the private sector. Ministers will specifically discuss how the G8 can support homegrown African efforts to improve investment climates, deepen financial sectors and strengthen the continent's infrastructure base.

Thank you for coming, and I look forward to answering your questions.

-30-

May 26, 2008
HP-1019

Remarks by Assistant Secretary Clay Lowery to the Foreign Correspondents Club of Japan

Thank you for the opportunity to speak with you today. Many of the speeches given by Treasury officials concern financial sector problems, and in the past a number have addressed problems in the Japanese financial sector. Today our speeches are more often about financial turbulence in the United States and what we are doing to address it. Today I'd like to step back a bit and talk about some lessons we have learned from episodes of financial turbulence over the past twenty years, how these lessons relate to recent global financial market turmoil, and what we are learning from recent events.

I will divide my remarks into four sections. First, what are the sources of financial turbulence. Second, what have we learned about dealing with financial sector turbulence. Third, what have we learned from past episodes about strengthening financial systems and avoiding future problems. Finally, why is financial sector innovation so important and why will the tensions between financial sector innovation and regulation remain.

Sources of Financial Sector Turbulence

Charles Kindleberger, the economic historian, has called financial crisis a "hardy perennial." Financial services differ from most other industries by explicitly linking the future to the present – promises to pay in the future, the value of assets in the future, insurance against future events. It is at its heart about uncertainty and risk, about expectations and confidence, and subject to shifts between exuberance and fear.

Sometimes that exuberance, which may be unsustainable, is driven by innovations like the railroads, or opening up new territories to exploration like the South Sea Corporation. Or the innovation can be in the financial sector itself – as in our recent case of securitized investment vehicles (SIVs) and specialized products such as collateralized debt obligations.

On the other hand, financial turbulence may arise from market movements rather than exuberance. For example, the U.S. Savings and Loan (S&L) crisis had its roots in a substantial maturity mismatch between assets and liabilities and a prolonged period of high nominal interest rates which, following financial deregulation, drove up the short-term funding costs for thrift and other financial institutions. Roughly three-quarters of thrift assets comprised fixed rate, low-yielding mortgages and mortgage-backed products, while almost all thrift liabilities were short-term deposits subject to rising interest rates.

Japan's financial crisis in the 1990s had its origins in an equity and property bubble that began in the late 1980s. Growing bank exposure to the real estate sector coupled with the widespread use of property as loan collateral multiplied banking sector risk. When growth slowed and property prices fell after the bursting of the bubble, Japan's banking sector came under increasing strain. Bank holdings of corporate equity, a part of which counted in bank capital, fueled additional lending when equity prices were rising. But when equity prices fell along with property prices, the squeeze on bank capital worsened the problems of Japanese banks.

Responding to Financial Turmoil:

Recognizing Losses, Prompt Regulatory Action, and Restoring Healthy Balance Sheets

We need to look to the past to understand the causes of financial turbulence so as to try to prevent future episodes. But we also need to need to draw lessons from the past so as to try to resolve bouts of turbulence once we are in them. One thing that we have learned from our own experience – and it has been an expensive lesson – is the importance of acting quickly to deal with financial sector difficulties. This means having accounting rules that require financial institutions to recognize losses quickly and a supervisory system that requires prompt action to restore balance sheet health. This is what we failed to do in our own Savings and Loan Crisis in the 1980s, but what has characterized our response to the current credit market turmoil.

In Japan, as in the U.S. S&L crisis, delay in recognizing and dealing with banking sector weakness led the problem to grow over time. The solution to Japan's banking crisis eventually came from a combination of mark-to-market accounting rules, stricter evaluation of loan quality, workout or sale of distressed assets, and increased bank capital through public funds and the private market.

In contrast, Sweden's banking crisis serves as an example of how prompt and effective action can limit the cost of financial crises, both in terms of their drain on public resources and their drag on economic growth. Problems in the banking sector initially emerged in 1991 but by 1994, the Swedish banking system already had returned to profitability. Early on, in autumn 1991, it became apparent that banks, experiencing real estate-related losses, would not be able to meet the higher capital ratios required by Basel I. Early recognition of the need for extensive action and broad political consensus played critical roles in resolving the crisis. The Swedish government quickly evaluated the situation of its banks, set up a fund to strengthen those that were viable and resolve those that weren't, and established two institutions to accept and resolve distressed assets.

Mature economies' experiences with banking failures teach us to appreciate the need for strong risk management, accounting and valuation that accurately reflects true financial conditions, and prompt disclosure of information to strengthen market discipline. Authorities understand the need to step in promptly to supply liquidity to markets, to protect depositors, to liquidate failed institutions, and to press banks to recognize losses, and merge or raise new capital. Returning banking systems to financial health has been fastest and most successful when authorities promptly address problems, strictly limit lender of last resort function, use firm deadlines for resolution, and ensure the appropriate incentives to owners and managers to mitigate moral hazard.

The lessons from our own S&L experience, as well as those from Japan, Sweden, and other countries have helped us shape our policy response to the current financial turmoil in the United States. Minimizing the impact on the real economy has been a guiding principle, as has been prompt, decisive action.

As financial market turmoil surfaced last August, policymakers in the United States acted quickly to stabilize markets, reduce the impact of the turmoil on the real economy, and address underlying regulatory and policy weaknesses. Treasury Secretary Paulson, at the forefront of U.S. government efforts, has worked to ensure a comprehensive, timely and appropriate response. We have sought to avoid overreacting with regulations or policy responses that would stifle innovation or distort the natural self-correcting forces of markets.

Secretary Paulson and other authorities have urged banks to promptly recognize and report losses, and raise additional capital as needed. Many global financial institutions have done so – reporting subprime-related losses of over $300 billion and raising additional capital of more than $200 billion.

In addition to prompt action in the financial sector, there is macroeconomic policy. In the United States, the Administration has worked with the Congress to help soften the negative impact of these events on the real economy, through fiscal policy and a series of initiatives to help families stay in their homes. In practically record time, the U.S. Government has already begun implementing a $150 billion economic stimulus package that will support consumer and business spending as we weather the current economic slowdown.

The U.S. Federal Reserve and other central banks have taken focused, and sometimes coordinated, actions to protect the financial system from severe disruption by ensuring that markets have access to financing. Already, we have seen some indication that this combination of actions is beginning to have the desired effect, as markets appear to be gaining confidence and the availability of credit has improved modestly.

Strengthening Financial Systems and Avoiding Future Turbulence

We have come a long way from past experiences of bank runs, financial panics, and depressions. In many ways, it is the lessons learned from past events that have helped make financial turmoil less likely to occur and reduced their impact. However it is important that we continue to analyze, draw lessons, and implement measures based on those lessons.

For instance, drawing on another event, the Asian Financial Crisis ten years ago demonstrated that a balance of payments crisis could become a banking system crisis when there are fixed exchange rates and internationally mobile capital, providing valuable lessons about the importance of flexible exchange rate regimes. Openness to capital flows also requires cultivating regulatory regimes, institutions and policies that support stronger risk management, flexibility and adaptability.

The Asian Financial Crisis also revealed the pitfalls of over-reliance on the banking sector for financial intermediation and the great value of financial sector diversification, particularly well-functioning bond markets. Bond markets provide important price signals for the economy, by establishing market-determined interest rates over various maturities that accurately reflect the opportunity cost of funds. Bond market creditors also transfer risk to those who are willing to bear it and exercise market discipline upon issuers.

Since the Asian crisis, bond market development has become a priority around the world – starting with a number of initiatives in APEC, then the Asian Bond Market Initiative, and most recently the G8 Action Plan for Developing Local Bond Markets in Emerging Market Economies and Developing Countries.

Bond markets have developed rapidly in emerging market economies since the Asian Financial Crisis, and those economies are more resilient as a result. Domestic securities outstanding have grown to about $6 trillion, nearly six times that of ten years ago. Local currency debt now accounts for about two-thirds of total emerging debt held and traded by international investors, which is a little less than a 70 percent increase from the beginning of the decade. It is measures like these – deduced from past lessons – that are contributing factors to emerging market spreads not "blowing out," even during these turbulent times.

Although the United States is still grappling with the subprime financial turmoil, we have already begun to draw lessons for strengthening our financial system in the future. The President's Working Group on Financial Markets in March recommended changes to mitigate systemic risk and restore investor confidence to facilitate stable economic growth. These recommendations are to:

Reform the mortgage origination process; enhance disclosure and improve the practices of sponsors, underwriters, and investors with respect to securitized credits; reform the credit rating agencies' processes for and practices regarding rating structured credit products; ensure that global financial institutions address weaknesses in risk management and reporting practices; ensure that prudential regulatory policies applicable to banks and securities firms, including capital and disclosure requirements, provide strong incentives for effective risk management practices; and enhance the OTC derivative market infrastructure.

These recommendations are being implemented now.

International Responses

From the outset, it has been clear that the interconnectedness of today's markets required an international, as well as domestic, response. U.S. financial officials have worked closely with counterparts in major economies around the world to address market instability. The Financial Stability Forum (FSF), which brings together the supervisors, central banks, and finance ministries of major financial centers, has been critical to this effort. The FSF has released a number of recommendations that echo and complement efforts underway in the United States. Implementation already has begun.

The current turmoil in U.S. financial markets has also underscored the need to revise and strengthen our system of financial sector regulation. Long before our current challenges, Secretary Paulson had launched a broad Capital Markets Competitiveness Initiative. Work has proceeded in a variety of areas such as accounting and auditing, disclosure, and financial education.

Treasury concluded in its Blueprint for a Modernized Financial Regulatory Structure that the optimal financial regulatory model mirrors the reasons we regulate: market stability, safety and soundness associated with federal guarantees, and consumer and investor protection. This proposal includes a market stability regulator, prudential financial regulator and business conduct regulator. We believe that this approach will foster innovation, mitigate risk, and enhance the competitiveness of America's capital markets.

In Japan, we see the plans for enhancing the competitiveness of its financial markets. The cornerstone of this work is the Financial Services Agency's broad vision for improving the regulatory environment through enhancing the transparency and predictability of regulatory actions. One of the fundamental lessons we have learned is the importance of regulatory transparency, predictability and consistency. Comprehensive steps to support market efficiency by relaxing firewalls where appropriate, enhancing the competitiveness of exchanges, and strengthening market discipline will serve Japan well.

Financial Sector Liberalization and Innovation and the Challenge for Financial Sector Policy and Regulation

If financial sector turbulence is a recurring feature of financial systems, what should we conclude about the value of financial sector innovation? In particular, what lessons should emerging markets now reforming their financial systems draw from the recent financial market turmoil and past crises? Is this a reason to slow financial sector reform, liberalization, and opening?

I strongly believe the opposite is true. Slowing down financial sector reform is not a recipe for avoiding crises, but it is a recipe for slowing growth. Strong, sustained economic growth, particularly in today's economy depends critically on efficient, competitive, and innovative financial systems. And robust, resilient financial systems depend on sound macroeconomic policies; legal frameworks that establish transparent, enforceable bankruptcy provisions; and strong, independent financial regulation. In addition, financial sectors that are open to competition and new entry – both domestic and foreign --underpin financial sector development, innovation, and economic growth.

In fact, the importance of openness to competition and new entry goes well beyond financial services. Open investment regimes are critical to maintaining and enhancing competitiveness. Japan has been the beneficiary of inward foreign portfolio investment and the ability of its firms to invest overseas. But Japan still lags far behind most OECD countries in inward investment as a percentage of GDP, and there concerns among investors that Japan may not be fully committed to attracting FDI. It is therefore important that Japan sends a clear message that it is open to foreign investment, especially in a period in which open regimes are being challenged by rising protectionist pressures around the world.

Financial markets continually evolve and innovate, and at an accelerating pace in this era of globalization. Today's innovations will often become tomorrow's staples of financial services. For instance, broad market index funds were once highly innovative but now are standard components of pension plans around the globe. Financial regulation needs to keep pace so that our markets remain transparent, robust and internationally competitive – and resilient enough to withstand the inevitable volatility that investors face from time to time. Financial sector regulation will always be responding to financial innovation, and we will always be striving to improve financial policy and regulation to deal with the financial sector as it evolves.

Conclusion

The nature of financial markets, with their dependence on confidence and expectations, and the rapid pace of innovation mean that financial market authorities will never succeed at removing all risk of turbulence or crisis. But a combination of accurate accounting and disclosure, market discipline, a determination to act quickly to resolve problems, and a willingness to examine and learn from past crises is the best way to limit the extent and the frequency of financial market turmoil.

Thank you.

June 11, 2008
HP-1020

Under Secretary Steel Statement on SEC's Proposed Rating Practices

New York - Under Secretary for Domestic Finance Robert K. Steel released the following statement today regarding the Securities and Exchange Commission's proposed rules for improving credit rating practices:

"Today's SEC action is an important step to enhancing disclosure to investors and market participants about the processes and practices of credit rating agencies and towards addressing conflict-of-interest issues. The President's Working Group on Financial Markets made several recommendations in March addressing credit rating issues, including review and disclosure by credit rating agencies, due diligence on the part of investors, and an assessment of the use of ratings in rules and regulations by supervisors. This SEC action makes a significant contribution towards implementing the PWG's recommendations."

-30-

June 13, 2008
hp-1021

**Week 7 Wrap-Up:
Treasury Sent 9.526 Million Stimulus Payments This Week**

This week the Treasury Department sent out 9.526 million economic stimulus payments to American households totaling $7.032 billion. So far, Treasury has sent out 76.103 million total economic stimulus payments totaling $63.863 billion.

Cumulative Total

Total Number of Payments: 76.103 million
Total Amount of Payments: $63.863 billion

Week Seven (June 9-13)

Total Number of Payments: 9.526 million
Total Amount of Payments: $7.032 billion

Week Six (June 2-6)

Total Number of Payments: 9.143 million
Total Amount of Payments: $6.789 billion

Week Five (May 26-30)

Total Number of Payments: 5.757 million
Total Amount of Payments: $4.320 billion

Week Four (May 19-23)

Total Number of Payments: 6.211 million
Total Amount of Payments: $4.927 billion

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28 and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-90	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 13, 2008
HP-1022

UPDATE
U.S. and China to Hold Meeting of the Strategic Economic Dialogue Next Week

Washington, D.C. – Treasury Secretary Henry M. Paulson, Jr. will host the fourth Cabinet level meeting of the U.S.–China Strategic Economic Dialogue next week. Secretary Paulson will be joined by Commerce Secretary Carlos Gutierrez, Labor Secretary Elaine Chao, Health and Human Services Secretary Michael Leavitt, OMB Director Jim Nussle, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, and other Administration officials.
In addition, Federal Reserve Chairman Ben S. Bernanke will participate in the Strategic Economic Dialogue discussions.
The fourth Cabinet level meeting of the U.S.–China Strategic Economic Dialogue will focus on managing financial and macroeconomic cycles, developing human capital, the benefits of trade and open markets, enhancing investment, and advancing joint opportunities for cooperation in energy and the environment.

For more information on the SED visit the Treasury Department website.

The following events are open to media with SED credentials only:

What
Opening Statements
When
Tuesday, June 17, 2008, 8:30 a.m. EDT
Where
U.S. Naval Academy
Mahan Hall Auditorium
121 Blake Road
Annapolis, Md.
Note
Shuttle service for SED credentialed media will be provided from the U.S. Navy/Marine Corps stadium parking lot from 6:00 a.m.-10:00 a.m. and 3:00 p.m.-7:00 p.m. All media must be set by 8:00 a.m. The last shuttle to meet the set time will depart the lot at 7:30 a.m.

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What
Family Photo
When
Wednesday, June 18, 2008, 8:00 a.m. EDT
Where
U.S. Naval Academy
Bancroft Hall
121 Blake Road
Annapolis, Md.
Note
Shuttle service for SED credentialed media will be provided from the U.S. Navy/Marine Corps stadium parking lot from 6:00 a.m.-10:00 a.m. All media must be set by 7:30 a.m. The last shuttle to meet the set time will depart the lot at 7:00 a.m.

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What
Closing Statements by Vice Premier Wang and Secretary Paulson

When
Wednesday, June 18, 2008, 4:00 p.m. EDT
Where
Treasury Department
Cash Room
1500 Pennsylvania Ave., NW
Washington, D.C.
Note
SED credentialed press with equipment should arrive at the moat entrance by 3:00 p.m.

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What
U.S. Delegation Press Conference
When
Wednesday, June 18, 2008, 4:45 p.m. EDT
Where
Treasury Department
Cash Room
1500 Pennsylvania Ave., NW
Washington, D.C.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 13, 2008
HP-1023

Kuwaiti Charity Designated for Bankrolling al Qaida Network

Washington - The U.S. Department of the Treasury today designated the Kuwait-based Revival of Islamic Heritage Society (RIHS) for providing financial and material support to al Qaida and al Qaida affiliates, including Lashkar e-Tayyiba, Jemaah Islamiyah, and Al-Itihaad al-Islamiya. RIHS has also provided financial support for acts of terrorism.

"Designating and freezing the assets of an organization engaged in charitable work is a decision not taken lightly because the last thing we want to do is cut off needed humanitarian assistance," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "However, the reality is that RIHS has used charity and humanitarian assistance as cover to fund terrorist activity and harm innocent civilians, often in poor and impoverished regions. We have a responsibility to do all we can to shut down the funding channels of terrorism."

RIHS was designated today under Executive Order 13224, which targets terrorists and those providing financial, technological, or material support to terrorists or acts of terrorism. Any assets RIHS holds under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with RIHS.

The RIHS offices in Afghanistan (RIHS-Afghanistan) and Pakistan (RIHS-Pakistan) were designated by the U.S. Government and the United Nations 1267 Committee in January 2002 based on evidence of their support for al Qaida. At that time, there was no evidence that the Kuwait-based RIHS headquarters (RIHS-HQ) knew that RIHS-Afghanistan and RIHS-Pakistan were financing al Qaida.

Since that time, however, evidence has mounted implicating RIHS-HQ in terrorism support activity. The U.S. Government has learned that RIHS senior leadership, who have actively managed all aspects of the organization's day-to-day operations, have been aware of both legitimate and illegitimate uses of RIHS funds.

"We designated two branches of RIHS in 2002, and since then a number of other countries have taken action against RIHS. We look forward to continuing our work with Kuwaiti authorities to ensure that legitimate charitable giving can reach those in need and not be diverted to terrorist organizations," Levey continued.

Suspected of providing support to terrorism, RIHS offices have been closed or raided by the governments of Albania, Azerbaijan, Bangladesh, Bosnia-Herzegovina, Cambodia, and Russia.

In countries where RIHS activities are banned or scrutinized by local governments, RIHS-HQ has developed multiple methods to continue its operations. After the Government of Bangladesh closed RIHS offices, RIHS-HQ funneled money into Bangladesh through another organization to continue RIHS activities and to help shield it from scrutiny there. RIHS-HQ has used RIHS officials and other individuals to courier funds out of the country in order to evade the scrutiny of the international financial system. In some countries, including Albania and Kosovo in particular, RIHS senior officials have assisted RIHS branch offices with name changes, and then continued to provide financial support to the new organizations.

RIHS Support for Terrorism in South Asia

RIHS-HQ provides significant financial and logistical support to the U.N.-designated terrorist group Lashkar e-Tayyiba (LeT), a Pakistan-based terrorist group with links to the al Qaida network. LeT was reportedly implicated in the July 2006 attack on multiple Mumbai commuter trains, and in the December 2001 attack against the Indian Parliament. As of 2007, RIHS provided office space to an LeT leader who visited Kuwait to raise funds for LeT operations. RIHS officials accompanied the LeT leader while he raised funds throughout Kuwait. As of late 2007, RIHS sent money to LeT elements on a monthly basis, and regularly transferred funds to LeT representatives' bank accounts in Pakistan. In some cases, LeT has received the funds at charitable entities associated with RIHS.

RIHS also reportedly provided a key source of funding for terrorist attacks carried out by an extremist group in Bangladesh in 2005. Despite a February 2005 Bangladeshi government ban of the terrorist group Jamaaat Mujahidin Bangladesh (JMB), on August 17, 2005, JMB launched a series of near-simultaneous bomb attacks across Bangladesh, killing two and injuring 64 persons. Over 400 bombs exploded during the course of these attacks, which were carried out in 63 of Bangladesh's 64 provinces. Following the bombings, RIHS was identified as one of the key sources of funding needed for staging these attacks. After the August 2005 bombings, RIHS was accused of funding JMB's military activities with overt and covert funds. These funds were channeled through a senior leader of a Bangladeshi Islamic organization. As of early 2005, RIHS in Bangladesh had contributed millions of dollars to this organization.

RIHS Support for Terrorism in Southeast Asia and the Horn of Africa

RIHS has provided financial and logistical support to the Southeast Asia based terrorist group Jemaah Islamiyah (JI). Specifically, an RIHS employee provided logistical support to JI's fugitive leader Nurjaman Riduan Isamuddin (a.k.a. "Hambali") prior to his capture in 2003. Due to the high security conditions during the 2002 Asian Summit, the RIHS employee escorted Hambali from Phnom Penh, Cambodia, to an alternate location, where he then provided him with accommodations. The employee was later captured and sentenced to life imprisonment on terrorism charges. An RIHS representative in Indonesia provided funding to a JI member collecting money for JI activities. The JI member funneled the funds he received from RIHS and other sources to JI associates for the procurement of weapons to support their operations.

RIHS has also funded al Qaida and like-minded terrorist groups in Somalia. Al Qaida supporters in Somalia reportedly have historically received significant funds through RIHS. In addition, RIHS provided hundreds of thousands of dollars to a university controlled by Al-Itihaad al-Islamiya.

IDENTIFIER INFORMATION

Revival of Islamic Heritage Society

RIHS Headquarters-Kuwait
Revival of Islamic Heritage Foundation
RIHF
Society for the Revival of Islamic Heritage
Islamic Heritage Revival Party
Islamic Heritage Restoration Society
IHRS
Kuwaiti Heritage
Ihya Turas Al-Islami
Ijha Turath Al-Islami
Jamia Ihya Ul Turath
Jamiat Ihia Al-Turath Al-Islamiya
Jam'iyat Ihya' Al-Turath Al-Islami
Jami'at Ihy'a Al-Tirath Al-Islamia
Jamiatul Ihya Ul Turath
Jamiyat Ikhya At-Turaz Al-Islami, Society of the Rebirth of the Islamic People
Jamiatul-Yahya Ut Turaz
Jomiatul Ehya-Ut Turaj

Jomiyatu-Ehya-Ut Turas Al Islami
Jama'ah Ihya Al-Turaz Al-Islami
Jami'ah Al-Hiya Al-Turath Al Islamiyah
Lajnat Ihya Al-Turath Al-Islami
Lajnat Al-Ihya Al-Turath Al-Islami
RIHS Administration for the Building of Mosques and Islamic Projects
RIHS Mosques Committee
Administration of the Revival of Islamic Heritage Society Committee
RIHS Arab World Committee
RIHS Committee for the Arab World
RIHS Committee for West Asia
RIHS Central Asia Committee
Committee for Europe and the Americas
RIHS Europe and the Americas Committee
RIHS Two Americas and European Muslim Committee
RIHS Europe America Muslims Committee
RIHS Southeast Asia Committee
RIHS Committee for South East Asia
RIHS Indian Continent Committee
RIHS Indian Subcontinent Committee
RIHS Committee for India
RIHS African Continent Committee
RIHS Committee for Africa
Revival of Islamic Society Heritage on the African Continent
RIHS Public Relations Committee
RIHS Cultural Committee
RIHS Principle Committee for the Center for Preservation of the Holy Qu'aran
RIHS General Committee for Donations
RIHS Youth Center Committee
RIHS Scientific Committee-Branch of Sabah Al-Nasir
RIHS Fatwas Committee
RIHS Center for Manuscripts Committee
RIHS Educating Committees, Al-Jahra'
RIHS Audio Recordings Committee
RIHS Project of Assigning Preachers Committee
RIHS Office of Printing and Publishing
RIHS Committee for Women
RIHS Committee for Women, Administration for the Building of Mosques
RIHS Women's Branch for the Project of Endowment
RIHS Administration for the Committees of Almsgiving
RIHS Committee for Almsgiving and Charities
RIHS Committee for the Call and Guidance
RIHS-Cambodia
RIHS Cambodia-Kuwait Orphanage Center
The Kuwaiti-Cambodian Orphanage Center
The Kuwait-Cambodia Islamic Cultural Training Center
RIHS Chaom Chau Center
Nara Welfare and Education Association
RIHS-Bosnia and Herzegovina
Kuwaiti Joint Relief Committee, Bosnia and Herzegovina
KJRC-Bosnia and Herzegovina
Plandiste School, Bosnia and Herzegovina
Organizacija Preporoda Islamske Tradicije Kuvajt
Kuwait General Committee for Aid
General Kuwait Committee
RIHS-Albania
Center of Call for Wisdom
CCFW
Thirrja Per Utesi
NGO Turath
RIHS-Kosovo
Dora E Miresise
Hand of Mercy
RIHS-Azerbaijan
RIHS-Russia
RIHS-Lebanon
RIHS-Bangladesh
RIHS-Somalia

RIHS-Ghana
RIHS-Tanzania
RIHS-Benin
RIHS-Cameroon
RIHS-Senegal
RIHS-Nigeria
RIHS-Liberia
RIHS-Ivory Coast

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House #40, Lake Drive Road, Sector #7, Uttara, Dhaka, Bangladesh
Number 28 Mula Mustafe Baseskije Street, Sarajevo, Bosnia and Herzegovina
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M.M. Baseskije Street, No.28p, Sarajevo, Bosnia and Herzegovina
Number 6 Donji Hotonj Street, Sarajevo, Bosnia and Herzegovina
RIHS Office, Ilidza, Bosnia and Herzegovina
RIHS Alija House, Ilidza, Bosnia and Herzegovina
RIHS Office, Tirana, Albania
RIHS Office, Pristina, Kosovo
Tripoli, Lebanon
City of Sidon, Lebanon
Dangkor District, Phnom Penh, Cambodia
Kismayo, Somalia
Kaneshi Quarter of Accra, Ghana
Al-Andalus, Kuwait
Al-Jahra', Kuwait
Al-Qurayn, Kuwait
Sabah Al-Nasir, Kuwait
Qurtubah, Kuwait
Hadiyah, Kuwait
Al-Qadisiyah, Kuwait
Al-Fayha', Kuwait
Al-Riqah, Kuwait
Al-Firdaws, Kuwait
Khitan, Kuwait
Al-Sabahiyah, Kuwait
Jalib Al-Shiyukh, Kuwait
Bayan Wa Mashrif, Kuwait
Sabah Al-Salim, Kuwait
Al-Rumaythiyah, Kuwait
Al-Salimiyah, Kuwait
Al-Aridiyah, Kuwait
Al-Khalidiya, Kuwait
Al-Dhahr, Kuwait
Al-Rawdah, Kuwait
Al-Shamiyah Wa Al-Shuwaykh, Kuwait
Al-Amiriyah, Kuwait
Al-Nuzhah, Kuwait
Kifan, Kuwait
Website: [illegible]

PRESS ROOM

FROM THE OFFICE OF PUBLIC AFFAIRS

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June 16, 2008
HP-1024

Treasury International Capital (TIC) Data for April

Treasury International Capital (TIC) data for April 2008 are released today and posted on the U.S. Treasury website (www.treas.gov/ti which will report on data for May, is scheduled for July 16, 2008.

Net foreign purchases of long-term securities were $115.1 billion.

- Net foreign purchases of long-term U.S. securities were $104.8 billion. Of this, net purchases by private foreign investors were $ purchases by foreign official institutions were $41.3 billion.
- U.S. residents sold a net $10.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $102.8 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $17.2 holdings of Treasury bills increased $3.3 billion.

Banks' own net dollar-denominated liabilities to foreign residents declined $25.0 billion.

Monthly net TIC flows were $60.6 billion. Of this, net foreign private flows were $31.5 billion, and net foreign official flows were $29.1 bil

-30-

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

				12 Months Through			
		2006	2007	Apr-07	Apr-08	Jan-08	Feb-(
	Foreigners' Acquisitions of Long-term Securities						
1	Gross Purchases of Domestic U.S. Securities	21077.1	29729.8	23191.3	32830.5	3137.9	2922
2	Gross Sales of Domestic U.S. Securities	19933.9	28725.1	21994.7	31897.4	3061.5	2844
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1004.6**	**1196.6**	**933.1**	**76.4**	**77**
4	**Private, net /2**	**946.6**	**816.9**	**992.9**	**667.2**	**23.6**	**71**
5	Treasury Bonds & Notes, net	125.9	198.2	182.9	249.0	0.4	24
6	Gov't Agency Bonds, net	193.8	107.0	166.3	126.8	19.9	35
7	Corporate Bonds, net	482.2	331.3	499.6	189.2	-0.6	14
8	Equities, net	144.6	180.4	144.1	102.2	3.8	-3
9	**Official, net /3**	**196.6**	**187.7**	**203.7**	**265.9**	**52.8**	**6**
10	Treasury Bonds & Notes, net	69.6	3.0	51.8	77.8	36.1	-3
11	Gov't Agency Bonds, net	92.6	119.1	120.2	96.8	-0.6	1
12	Corporate Bonds, net	28.6	50.6	31.7	56.8	3.9	4
13	Equities, net	5.8	15.1	0.0	34.6	13.3	4

14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8188.1	6240.0	8639.1	770.5	683
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.3	6511.9	8795.2	790.2	696
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-223.2**	**-271.9**	**-156.1**	**-19.7**	**-12**
17	Foreign Bonds Purchased, net	-144.5	-127.9	-172.8	-76.3	-17.3	5
18	Foreign Equities Purchased, net	-106.5	-95.3	-99.1	-79.8	-2.3	-18
19	**Net Long-Term Securities Transactions** (line 3 plus line	**892.3**	**781.5**	**924.7**	**777.0**	**56.7**	**64**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-234.2**	**-194.4**	**-235.4**	**-17.9**	**-15**
21	**Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20):	**717.7**	**547.2**	**730.2**	**541.6**	**38.7**	**49**
22	**Increase in Foreign Holdings of Dollar-denominated Short-U.S. Securities and Other Custody Liabilities: /6**	**146.2**	**226.1**	**170.3**	**265.0**	**76.3**	**-0**
23	**U.S. Treasury Bills**	**-9.0**	**48.8**	**-10.0**	**107.9**	**11.6**	**14**
24	Private, net	16.1	29.3	9.0	71.0	0.8	17
25	Official, net	-25.0	19.5	-19.0	36.9	10.8	-2
26	**Other Negotiable Instruments and Selected Other Liabilities: /7**	**155.1**	**177.3**	**180.3**	**157.1**	**64.8**	**-15**
27	Private, net	174.9	101.2	185.0	95.4	57.9	-9
28	Official, net	-19.8	76.1	-4.7	61.6	6.9	-5
29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**198.0**	**-108.6**	**-79.3**	**-342.2**	**-80.2**	**0**
30	**Monthly Net TIC Flows** (lines 21,22,29) /8	**1061.8**	**664.7**	**821.2**	**464.3**	**34.9**	**49**
	of which						
31	Private, net	923.0	377.8	623.9	168.5	-41.9	58
32	Official, net	138.9	286.8	197.3	295.9	76.7	-9

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

/2 Includes international and regional organizations

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

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

/5 Minus estimated unrecorded principal repayments to foreigners on domestic corporate and agency asset-backed securitie: 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 C

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

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

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

REPORTS

- (PDF) TIC Monthly Reports on Cross-Border Financial Flows (Billions of dollars, not seasonally adjusted)

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

June 16, 2008 **Contact: Rob Saliterman**
EMBARGOED UNTIL 9:00 AM **(202) 622-2960**

TREASURY INTERNATIONAL CAPITAL DATA FOR APRIL

Treasury International Capital (TIC) data for April 2008 are released today and posted on the U.S. Treasury website (www.treas.gov/tic). The next release, which will report on data for May, is scheduled for July 16, 2008.

Net foreign purchases of long-term securities were $115.1 billion.

- Net foreign purchases of long-term U.S. securities were $104.8 billion. Of this, net purchases by private foreign investors were $63.5 billion, and net purchases by foreign official institutions were $41.3 billion.

- U.S. residents sold a net $10.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $102.8 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $17.2 billion. Foreign holdings of Treasury bills increased $3.3 billion.

Banks' own net dollar-denominated liabilities to foreign residents declined $25.0 billion.

Monthly net TIC flows were $60.6 billion. Of this, net foreign private flows were $31.5 billion, and net foreign official flows were $29.1 billion.

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

		2006	2007	12 Months Through Apr-07	12 Months Through Apr-08	Jan-08	Feb-08	Mar-08	Apr-08
	Foreigners' Acquisitions of Long-term Securities								
1	Gross Purchases of Domestic U.S. Securities	21077.1	29729.8	23191.3	32830.5	3137.9	2922.6	3076.9	2592.6
2	Gross Sales of Domestic U.S. Securities	19933.9	28725.1	21994.7	31897.4	3061.5	2844.7	2998.4	2487.8
3	**Domestic Securities Purchased, net** (line 1 less line 2) /1	**1143.2**	**1004.6**	**1196.6**	**933.1**	**76.4**	**77.9**	**78.6**	**104.8**
4	**Private, net /2**	**946.6**	**816.9**	**992.9**	**667.2**	**23.6**	**71.1**	**30.5**	**63.5**
5	Treasury Bonds & Notes, net	125.9	198.2	182.9	249.0	0.4	24.2	25.6	58.0
6	Gov't Agency Bonds, net	193.8	107.0	166.3	126.8	19.9	35.7	3.2	4.3
7	Corporate Bonds, net	482.2	331.3	499.6	189.2	-0.6	14.9	-8.7	17.6
8	Equities, net	144.6	180.4	144.1	102.2	3.8	-3.7	10.4	-16.3
9	**Official, net /3**	**196.6**	**187.7**	**203.7**	**265.9**	**52.8**	**6.7**	**48.1**	**41.3**
10	Treasury Bonds & Notes, net	69.6	3.0	51.8	77.8	36.1	-3.6	28.0	22.3
11	Gov't Agency Bonds, net	92.6	119.1	120.2	96.8	-0.6	1.2	15.5	11.0
12	Corporate Bonds, net	28.6	50.6	31.7	56.8	3.9	4.4	4.1	7.5
13	Equities, net	5.8	15.1	0.0	34.6	13.3	4.8	0.4	0.4
14	Gross Purchases of Foreign Securities from U.S. Residents	5515.9	8188.1	6240.0	8639.1	770.5	683.0	755.6	699.7
15	Gross Sales of Foreign Securities to U.S. Residents	5766.8	8411.3	6511.9	8795.2	790.2	696.0	754.5	689.4
16	**Foreign Securities Purchased, net** (line 14 less line 15) /4	**-250.9**	**-223.2**	**-271.9**	**-156.1**	**-19.7**	**-12.9**	**1.1**	**10.3**
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19	**Net Long-Term Securities Transactions** (line 3 plus line 16):	**892.3**	**781.5**	**924.7**	**777.0**	**56.7**	**64.9**	**79.6**	**115.1**
20	**Other Acquisitions of Long-term Securities, net /5**	**-174.6**	**-234.2**	**-194.4**	**-235.4**	**-17.9**	**-15.4**	**-26.3**	**-12.3**
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29	**Change in Banks' Own Net Dollar-Denominated Liabilities**	**198.0**	**-108.6**	**-79.3**	**-342.2**	**-80.2**	**0.4**	**-115.6**	**-25.0**
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/1 Net foreign purchases of U.S. securities (+)

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/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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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 14, 2008
hp-1025

**Statement by Treasury Secretary Henry M. Paulson, Jr.
following Meeting of the G-8 Finance Ministers**

Osaka, Japan – I would like to start by thanking Minister Nukaga and his staff at the Japanese Ministry of Finance for hosting a successful meeting.

Our meeting took place amid some new challenges for the global economy. I told my G-8 colleagues that the U.S. economy continues to face challenges including the housing correction, financial market turmoil, and high energy prices which continue to weigh on growth. While we are still working through housing and capital markets issues, and expect to be doing so for some time, we also expect to see a faster pace of U.S. economic growth before the end of the year, while recognizing that the recent increase in oil prices risks prolonging the U.S. economic downturn. The Administration and Congress worked together and worked quickly to pass the Economic Stimulus Act of 2008, a robust, broad-based and temporary package that will will provide over $150 billion in stimulus for businesses and individuals in 2008. This will provide a meaningful near-term boost to household and business spending. The Administration has also coordinated several effective initiatives to help ease the strain from the housing downturn. The HOPE NOW alliance reports that since last July, the mortgage industry has helped nearly 1.6 million homeowners stay in their homes.

Financial Stability Forum Chairman Draghi reported to us on the implementation of the priority recommendations of the Finance Stability Forum (FSF) that were endorsed by the G-7 Finance Ministers and Central Bank Governors in April. I am pleased by the progress to date in meeting these goals, as well as progress implementing the other FSF recommendations. The President's Working Group (PWG) has been working closely with the FSF and is now tracking and assessing implementation of its policy recommendations and will report on progress in the fourth quarter of 2008. At that time, the PWG will consider whether further steps are needed to address weaknesses.

This period of slower growth has raised concerns around the world about the benefits of globalization. Some suggest that recovery lies in a retreat inward, away from international economic engagement. This would be the wrong choice. In today's global economy, a shift inward would lead to economic stagnation and would cost millions of jobs, deter foreign investment, curtail growth, and increase the cost of many goods and services purchased by American households. In fact, the key to remaining competitive in today's changing world is embracing openness to trade and investment. In this context G-8 Finance Ministers agreed that measures that address national security concerns should be transparent, predictable and proportionate to the national security concern identified. We recognized that commercially-driven investment from government-controlled investors such as sovereign wealth funds has benefits and underscored that these investors should adopt high standards in areas such as institutional and governance arrangements, investment and risk management structures, and transparency.

High and increasing oil and food prices pose policy challenges for both advanced and developing countries and we spent considerable time talking about these challenges. Food price inflation is being driven primarily by economic fundamentals including high energy prices, increased food demand, and low inventories. The international community should respond with an integrated approach that addresses the immediate effects of the crisis as well as underlying causes of food insecurity. In the short run, donors should unite to provide emergency assistance. The President has requested an additional $770 million, including $395 million in emergency food aid, $225 million in International Disaster Assistance which would support a range of programs including the purchase of seeds and other farm inputs to increase local production, and $150 million in Development Assistance to improve agriculture infrastructure. But it is also imperative to remove supply-side constraints, replace general food subsidies in developing countries with well-targeted ones, remove export restrictions, and improve the efficiency of international agricultural markets, including through the successful conclusion of the Doha Development Round.

Since 2002, the price of oil has increased five-fold, and earlier this year oil prices breached previous record highs in real terms. At its heart, this run up in price reflects long-term trends in global supply and demand and strong economic growth coinciding with a period of minimal investment in oil production. This is not something that lends itself to short-term solutions. On the demand side, we need markets to work and to avoid subsidies and other market-distorting policies. On the supply side, countries should open oil markets investment to boost yields, exploration, and production. Producers need to increase output and capacity.

I was pleased to note progress on G-8 actions to respond to challenges associated with climate change. Last year, President Bush initiated the Major Economies process to bring the major emitting developed and developing countries together to tackle climate issues and tasked the Treasury Department with creating an international program to promote clean technology deployment in developing countries. This program is a critical effort of the G-8 countries to reduce the rapid growth of greenhouse gas emissions in developing countries by helping them to finance the additional costs of deploying clean energy technologies over cheaper, dirtier alternatives. Today Ministers discussed the considerable progress made in establishing the Clean Technology Fund which includes a successful meeting hosted by Germany last month that brought together developed and developing countries and resulted in strong agreement on the parameters of how the Fund will work, how it will be governed, and how it will bring benefits to emerging economies. The Administration strongly supports the Fund and has requested authorization from Congress for a U.S. contribution of $2 billion over three years to the Fund. I was pleased to join my G-8 colleagues in welcoming and supporting the launch of this fund.

On economic development in Africa, G-8 Ministers support Japan's focus on the importance of developing the private sector in order to achieve sustainable economic growth. In my trip to Africa last fall, and in subsequent conversations, a number of African Finance Ministers have highlighted their commitment to creating an enabling environment for the private sector. Priorities include efforts to improve investment climates, deepen financial sectors and strengthen the continent's infrastructure base.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 13, 2008
HP-1023

Kuwaiti Charity Designated for Bankrolling al Qaida Network

Washington - The U.S. Department of the Treasury today designated the Kuwait-based Revival of Islamic Heritage Society (RIHS) for providing financial and material support to al Qaida and al Qaida affiliates, including Lashkar e-Tayyiba, Jemaah Islamiyah, and Al-Itihaad al-Islamiya. RIHS has also provided financial support for acts of terrorism.

"Designating and freezing the assets of an organization engaged in charitable work is a decision not taken lightly because the last thing we want to do is cut off needed humanitarian assistance," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "However, the reality is that RIHS has used charity and humanitarian assistance as cover to fund terrorist activity and harm innocent civilians, often in poor and impoverished regions. We have a responsibility to do all we can to shut down the funding channels of terrorism."

RIHS was designated today under Executive Order 13224, which targets terrorists and those providing financial, technological, or material support to terrorists or acts of terrorism. Any assets RIHS holds under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with RIHS.

The RIHS offices in Afghanistan (RIHS-Afghanistan) and Pakistan (RIHS-Pakistan) were designated by the U.S. Government and the United Nations 1267 Committee in January 2002 based on evidence of their support for al Qaida. At that time, there was no evidence that the Kuwait-based RIHS headquarters (RIHS-HQ) knew that RIHS-Afghanistan and RIHS-Pakistan were financing al Qaida.

Since that time, however, evidence has mounted implicating RIHS-HQ in terrorism support activity. The U.S. Government has learned that RIHS senior leadership, who have actively managed all aspects of the organization's day-to-day operations, have been aware of both legitimate and illegitimate uses of RIHS funds.

"We designated two branches of RIHS in 2002, and since then a number of other countries have taken action against RIHS. We look forward to continuing our work with Kuwaiti authorities to ensure that legitimate charitable giving can reach those in need and not be diverted to terrorist organizations," Levey continued.

Suspected of providing support to terrorism, RIHS offices have been closed or raided by the governments of Albania, Azerbaijan, Bangladesh, Bosnia-Herzegovina, Cambodia, and Russia.

In countries where RIHS activities are banned or scrutinized by local governments, RIHS-HQ has developed multiple methods to continue its operations. After the Government of Bangladesh closed RIHS offices, RIHS-HQ funneled money into Bangladesh through another organization to continue RIHS activities and to help shield it from scrutiny there. RIHS-HQ has used RIHS officials and other individuals to courier funds out of the country in order to evade the scrutiny of the international financial system. In some countries, including Albania and Kosovo in particular, RIHS senior officials have assisted RIHS branch offices with name changes, and then continued to provide financial support to the new organizations.

RIHS Support for Terrorism in South Asia

RIHS-HQ provides significant financial and logistical support to the U.N.-designated terrorist group Lashkar e-Tayyiba (LeT), a Pakistan-based terrorist group with links to the al Qaida network. LeT was reportedly implicated in the July 2006 attack on multiple Mumbai commuter trains, and in the December 2001 attack against the

Indian Parliament. As of 2007, RIHS provided office space to an LeT leader who visited Kuwait to raise funds for LeT operations. RIHS officials accompanied the LeT leader while he raised funds throughout Kuwait. As of late 2007, RIHS sent money to LeT elements on a monthly basis, and regularly transferred funds to LeT representatives' bank accounts in Pakistan. In some cases, LeT has received the funds at charitable entities associated with RIHS.

RIHS also reportedly provided a key source of funding for terrorist attacks carried out by an extremist group in Bangladesh in 2005. Despite a February 2005 Bangladeshi government ban of the terrorist group Jamaaat Mujahidin Bangladesh (JMB), on August 17, 2005, JMB launched a series of near-simultaneous bomb attacks across Bangladesh, killing two and injuring 64 persons. Over 400 bombs exploded during the course of these attacks, which were carried out in 63 of Bangladesh's 64 provinces. Following the bombings, RIHS was identified as one of the key sources of funding needed for staging these attacks. After the August 2005 bombings, RIHS was accused of funding JMB's military activities with overt and covert funds. These funds were channeled through a senior leader of a Bangladeshi Islamic organization. As of early 2005, RIHS in Bangladesh had contributed millions of dollars to this organization.

RIHS Support for Terrorism in Southeast Asia and the Horn of Africa

RIHS has provided financial and logistical support to the Southeast Asia based terrorist group Jemaah Islamiyah (JI). Specifically, an RIHS employee provided logistical support to JI's fugitive leader Nurjaman Riduan Isamuddin (a.k.a. "Hambali") prior to his capture in 2003. Due to the high security conditions during the 2002 Asian Summit, the RIHS employee escorted Hambali from Phnom Penh, Cambodia, to an alternate location, where he then provided him with accommodations. The employee was later captured and sentenced to life imprisonment on terrorism charges. An RIHS representative in Indonesia provided funding to a JI member collecting money for JI activities. The JI member funneled the funds he received from RIHS and other sources to JI associates for the procurement of weapons to support their operations.

RIHS has also funded al Qaida and like-minded terrorist groups in Somalia. Al Qaida supporters in Somalia reportedly have historically received significant funds through RIHS. In addition, RIHS provided hundreds of thousands of dollars to a university controlled by Al-Itihaad al-Islamiya.

IDENTIFIER INFORMATION

Revival of Islamic Heritage Society

RIHS Headquarters-Kuwait
Revival of Islamic Heritage Foundation
RIHF
Society for the Revival of Islamic Heritage
Islamic Heritage Revival Party
Islamic Heritage Restoration Society
IHRS
Kuwaiti Heritage
Ihya Turas Al-Islami
Ijha Turath Al-Islami
Jamia Ihya Ul Turath
Jamiat Ihia Al-Turath Al-Islamiya
Jam'iyat Ihya' Al-Turath Al-Islami
Jami'at Ihy'a Al-Tirath Al-Islamia
Jamiatul Ihya Ul Turath
Jamiyat Ikhya At-Turaz Al-Islami, Society of the Rebirth of the Islamic People
Jamiatul-Yahya Ut Turaz
Jomiatul Ehya-Ut Turaj
Jomiyatu-Ehya-Ut Turas Al Islami
Jama'ah Ihya Al-Turaz Al-Islami
Jami'ah Al-Hiya Al-Turath Al Islamiyah
Lajnat Ihya Al-Turath Al-Islami
Lajnat Al-Ihya Al-Turath Al-Islami
RIHS Administration for the Building of Mosques and Islamic Projects
RIHS Mosques Committee
Administration of the Revival of Islamic Heritage Society Committee

RIHS Arab World Committee
RIHS Committee for the Arab World
RIHS Committee for West Asia
RIHS Central Asia Committee
Committee for Europe and the Americas
RIHS Europe and the Americas Committee
RIHS Two Americas and European Muslim Committee
RIHS Europe America Muslims Committee
RIHS Southeast Asia Committee
RIHS Committee for South East Asia
RIHS Indian Continent Committee
RIHS Indian Subcontinent Committee
RIHS Committee for India
RIHS African Continent Committee
RIHS Committee for Africa
Revival of Islamic Society Heritage on the African Continent
RIHS Public Relations Committee
RIHS Cultural Committee
RIHS Principle Committee for the Center for Preservation of the Holy Qu'aran
RIHS General Committee for Donations
RIHS Youth Center Committee
RIHS Scientific Committee-Branch of Sabah Al-Nasir
RIHS Fatwas Committee
RIHS Center for Manuscripts Committee
RIHS Educating Committees, Al-Jahra'
RIHS Audio Recordings Committee
RIHS Project of Assigning Preachers Committee
RIHS Office of Printing and Publishing
RIHS Committee for Women
RIHS Committee for Women, Administration for the Building of Mosques
RIHS Women's Branch for the Project of Endowment
RIHS Administration for the Committees of Almsgiving
RIHS Committee for Almsgiving and Charities
RIHS Committee for the Call and Guidance
RIHS-Cambodia
RIHS Cambodia-Kuwait Orphanage Center
The Kuwaiti-Cambodian Orphanage Center
The Kuwait-Cambodia Islamic Cultural Training Center
RIHS Chaom Chau Center
Nara Welfare and Education Association
RIHS-Bosnia and Herzegovina
Kuwaiti Joint Relief Committee, Bosnia and Herzegovina
KJRC-Bosnia and Herzegovina
Plandiste School, Bosnia and Herzegovina
Organizacija Preporoda Islamske Tradicije Kuvajt
Kuwait General Committee for Aid
General Kuwait Committee
RIHS-Albania
Center of Call for Wisdom
CCFW
Thirrja Per Utesi
NGO Turath
RIHS-Kosovo
Dora E Miresise
Hand of Mercy
RIHS-Azerbaijan
RIHS-Russia
RIHS-Lebanon
RIHS-Bangladesh
RIHS-Somalia
RIHS-Ghana
RIHS-Tanzania
RIHS-Benin
RIHS-Cameroon
RIHS-Senegal
RIHS-Nigeria
RIHS-Liberia
RIHS-Ivory Coast

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RIHS Alija House, Ilidza, Bosnia and Herzegovina
RIHS Office, Tirana, Albania
RIHS Office, Pristina, Kosovo
Tripoli, Lebanon
City of Sidon, Lebanon
Dangkor District, Phnom Penh, Cambodia
Kismayo, Somalia
Kaneshi Quarter of Accra, Ghana
Al-Andalus, Kuwait
Al-Jahra', Kuwait
Al-Qurayn, Kuwait
Sabah Al-Nasir, Kuwait
Qurtubah, Kuwait
Hadiyah, Kuwait
Al-Qadisiyah, Kuwait
Al-Fayha', Kuwait
Al-Riqah, Kuwait
Al-Firdaws, Kuwait
Khitan, Kuwait
Al-Sabahiyah, Kuwait
Jalib Al-Shiyukh, Kuwait
Bayan Wa Mashrif, Kuwait
Sabah Al-Salim, Kuwait
Al-Rumaythiyah, Kuwait
Al-Salimiyah, Kuwait
Al-Aridiyah, Kuwait
Al-Khalidiya, Kuwait
Al-Dhahr, Kuwait
Al-Rawdah, Kuwait
Al-Shamiyah Wa Al-Shuwaykh, Kuwait
Al-Amiriyah, Kuwait
Al-Nuzhah, Kuwait
Kifan, Kuwait
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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

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June 14, 2008
hp-1026

Joint Statements by G-8 Finance Ministers – Osaka, Japan

Osaka, Japan--The following statements were issued jointly by the G-8 Finance Ministers:

REPORTS

- Joint Statement of the G-8 Finance Ministers
- Joint Statement on Climate Investment Funds
- G8 Action Plan for Climate Change to Enhance the Engagement of Private and Public Financial Institutions
- G8 Action Plan for Private Sector Led Growth in Africa, Improving the Investment Climate and Strengthening the Financial Sector

Statement of the G-8 Finance Ministers Meeting

Osaka Japan
June 14th, 2008

1. We, the Finance Ministers of the G-8 countries, met today in Osaka, Japan, in preparation for the Summit of the G-8 Heads of State and Government in Hokkaido-Toyako. For a long time the world economy enjoyed a combination of robust growth and low inflation, but it now faces headwinds. We will work to ensure that the conditions are in place for continued strong world economic growth.

World Economy

2. We remain positive about the long-term resilience of our economies and emerging market economies are still growing strongly. However, the world economy continues to face uncertainty and downside risks persist. Further declines in housing prices in the United States and greater strains in the financial markets may adversely affect the global outlook. Elevated commodity prices, especially of oil and food, pose a serious challenge to stable growth worldwide, have serious implications for the most vulnerable, and may increase global inflationary pressure. These conditions make our policy choices more complicated. We will remain vigilant, and will continue to take appropriate actions, individually and collectively, in order to secure stability and growth in our economies and globally.

3. Financial market conditions have improved somewhat in the past few months. Bold measures by major central banks have supported the better functioning of markets. Disclosure of losses and capital enhancements by many financial institutions have also helped improve market sentiment. However, strains remain, especially in money and credit markets. The recent financial turmoil has revealed the risks posed to the financial system by excessive risk taking and leveraging. Financial innovation has contributed significantly to the global growth and development, but in the light of risks to financial stability, it is imperative that transparency and risk awareness be enhanced.

4. We are fully committed to completing our strategy launched last October for strengthening the resilience of the financial system including implementing recommendations made by the FSF. We welcome Mario Draghi's update on the progress including on the priorities for action within 100 days. We call for continuing efforts by financial firms to improve disclosure and risk management practices, and to enhance their capital base as needed. We call on the IASB to accelerate its reviews of accounting issues around off-balance sheet entities and valuation in illiquid markets. We welcome the revised IOSCO code of conduct for credit rating agencies, the steps national supervisors have taken to encourage better disclosure by financial institutions in their mid-year reports, and the imminent release by the Basel Committee of their sound practice guidance on liquidity risk management. We look forward to work on mitigating pro-cyclicality in the financial system. We encourage the financial services industry to act upon the lessons learned from recent events. We look forward to concrete progress in closer co-operation between the IMF and the FSF on reinforcing early warning capabilities.

5. We affirm our commitment to an open investment policy and acknowledge that international investment is fundamental to global prosperity. We will resist protectionist sentiment at home and abroad. We welcome the work of the OECD to establish best practices for open investment regimes. We recognise the benefits of commercially-driven investment from government-controlled investors such as sovereign wealth funds and, to this

end encourage these investors to work with the IMF to identify and adopt high standards in areas such as governance, risk management, and transparency. We welcome ongoing discussions on mutual recognition of comparable securities regimes and encourage further progress on facilitating cross-border financial services. We also highlight the urgent need for a successful conclusion to the Doha Development Round.

Commodity Prices

6. We have strong concerns about the sharp rise in oil prices, which have surpassed past peaks in both nominal and real terms, and the impacts on global macro-economic stability as well as people's welfare and development prospects. Elevated oil prices fundamentally reflect rising world demand and supply constraints, but other elements such as geopolitical concerns and financial factors also play a role. To meet the challenge, on the demand side, energy efficiency of all economies should be further improved and diversification of the energy sources pursued. To this end, we recognise the importance of full implementation of the St. Petersburg Energy Security Action Plan. These efforts will also help address the climate change problem. Passing on price signals to consumers for example by reducing subsidies, while giving targeted support to the poorest, is also important. We commend several emerging market economies for their recent moves in this direction and encourage further progress in this area. On the supply side, we urge oil producing countries to increase production and to invest to enhance long-term production capacity, drawing on the expertise of international oil companies. We also encourage all countries to enhance refinery capacity. In addition, the oil markets can be made more efficient by promoting greater transparency and reliability in market data including on oil stocks, which wider and more timely participation in the Joint Oil Data Initiative (JODI) would address, and on the size of financial flows coming into the oil markets. We ask relevant national authorities to examine the functioning of commodity futures markets and to take appropriate measures as needed. We also call on the IMF and the IEA to work together, with appropriate national authorities, in carrying out further analysis of real and financial factors behind the recent surge in oil and commodity prices, their volatility, and the effects on the global economy, and report back at the next Annual Meetings.

7. The recent steep rise in food prices has severely hit many low-income food-importing countries. Its causes are multi-faceted, but we expect that demand will likely stay high as emerging economies and developing countries grow. The international community should respond with an integrated approach that addresses the immediate effects of the crisis as well as underlying causes of food insecurity. In the short term, donors should unite to provide emergency assistance. We are supporting efforts by the WFP, the World Bank and others to this end and welcome the World Bank's recent announcement of a new $1.2bn rapid financing facility to address immediate needs. We welcome the work of the IMF to address the needs of food-importing countries facing balance of payments difficulties, including through the PRGF and the review of the Exogenous Shock Facility. In the medium term, it is critical for international organisations, including the UN bodies, and donors collectively to support partner countries' efforts to increase agricultural production, especially through a boost in productivity. It is particularly important to have a clear division of labour between different actors, including the Multilateral Development Banks (MDBs) and Rome-based institutions. Acknowledging the important role played by science and technology, we agree on the need to support international research institutes, such as the Consultative Group on International Agricultural Research (CGIAR) and other partnerships. It is imperative to remove supply-side constraints and export restrictions, replace general food subsidies in developing countries with well-targeted help for the poorest, and improve the efficiency of international agricultural markets, including through the successful conclusion of the Doha Development Round. As bio-fuels pose challenges and opportunities, it is essential to

ensure the sustainability of their production and use. In this light, research and development of the second-generation production methods from non-food material should be a priority.

8. Commodity price increases, including of oil and food, are a global challenge. We call for further partnership and dialogue between producers, consumers, and relevant institutions on food security. We ask the World Bank to examine the impact of commodity price increases on development prospects. We also ask the IMF to conduct work on reform of fossil fuel subsidies. We look forward to the reports on these issues at the next Annual Meetings.

Climate Change

9. We are convinced that urgent and concerted action is needed and accept our responsibility to show leadership in tackling climate change. We are strengthening our efforts to assist developing countries in addressing climate change, and agreed to the attached "G-8 Action Plan for Climate Change to Enhance the Engagement of Private and Public Financial Institutions". We welcome and support the launch, to be made in collaboration with the MDBs, of the new Climate Investment Funds (CIFs), which will complement existing bilateral and multilateral efforts, until a post-2012 framework under the UNFCCC is implemented. These funds include the Clean Technology Fund and the Strategic Climate Fund, and should be consistent with national mitigation plans proposed by developing countries. Together these funds will scale up public and private finance for the deployment of clean technologies, the prevention of deforestation and development of climate resilient economies in developing countries, as described in our separate statement on the CIFs.

10. We discussed the critical roles of the private sector in providing large-scale investment into low carbon activities. We, especially, welcome the recent activities of the private financial institutions, in creating innovative financial products and employing environmental guidelines for financing projects. We urge the MDBs, in coordination with other multilateral and bilateral actors, to play key roles in increasing needed investments and helping developing countries to integrate climate change into their overall development strategies and welcome the joint MDB report on climate change, in response to our request at the Gleneagles Summit. We note that market mechanisms, including emission trading and tax incentives, have the potential to deliver economic incentives to the private sector to take investment decisions that internalise environmental costs, while they should be designed to meet specific conditions in each country.

Development

11. Growth in Africa remains robust, though it is still susceptible to shocks, including rising food and energy prices, which pose great challenges to the most vulnerable populations. As high, stable growth is critical to attaining broad-based development and the Millennium Development Goals, we are committed to working together with African countries to foster sustainable, private sector led growth, building on our commitments to double aid to Africa. In support of country specific growth strategies, we propose to focus on two pillars in our "G-8 Action Plan for Private Sector Led Growth in Africa": improving the investment climate; and strengthening the financial sector. In this regard, we are increasing contributions for the development of reliable infrastructures, such as cross-border transport corridors. We will support capacity building of small- and medium-sized enterprises and help African countries' efforts to promote their capacity to trade including through Aid for Trade. We affirm the importance of good financial governance, including long-term fiscal discipline for resource rich countries, and of broader implementation of the Extractive Industries Transparency Initiative. Furthermore, we

underline the necessity of enhancing a greater access to the formal economy. We will help strengthen local financial institutions, promote local currency financing for African borrowers, enhance local bond market development in African countries, and facilitate remittance flows.

12. We will continue to put emphasis on the sustainability of growth. Private sector adoption of voluntary guidelines for managing environmental and social issues in project finance should be encouraged. We support the ongoing discussions with emerging creditors in various fora with a view to ensuring external debt sustainability of low-income countries. We welcome the progress made since our meeting last year in taking action to tackle aggressive litigation against Heavily Indebted Poor Countries. In particular we note the measures taken by the Paris Club, improvements to the World Bank's Debt Reduction Facility and the establishment of a Legal Support Facility at the African Development Bank.

Abuses of the Financial System

13. We are committed to fighting money laundering, terrorist financing and other illicit financing. We are committed to effective and timely implementation of UN Resolutions, in particular Resolution 1803 which calls for exercising vigilance over the activities of financial institutions with all banks domiciled in Iran, in particular with Bank Melli and Bank Saderat, and their branches and subsidiaries abroad. We urge the Financial Action Task Force (FATF) to keep these threats under review and take appropriate action to safeguard the integrity of the international financial system.

14. In view of the recent developments, we urge all countries that have not yet fully implemented the OECD standards of transparency and effective exchange of information in tax matters to do so without further delay. We welcome the efforts of the OECD in this regard, and ask the OECD to strengthen its work on tax evasion.

G8 Action Plan for Private Sector Led Growth in Africa: Improving the Investment Climate and Strengthening the Financial Sector

Osaka, Japan

June 14th 2008

1. According to recent estimates, growth accounts for approximately 80% of the poverty reduction that has occurred over the last 15 years, lifting 500 million people around the world above the poverty line. Growth among emerging and developing economics has been generally strong with activity driven by a robust global growth, sound economic reforms, and strong domestic private demand in recent years. In 2007, growth in these economies reached 7.8 percent and is expected to remain robust at around 7 percent in both 2008 and 2009, despite the recent turmoil in financial markets.

2. This encouraging growth, however, is still susceptible to exogenous factors, including rising food and energy prices, which pose great challenges to the most vulnerable populations, especially in Africa. We are committed to working together with African countries to maintain and strengthen this favorable momentum as well as to honouring our existing committments to double aid to Africa and cancel 100 per cent of debts for eligible Heavily Indebted Poor Countries (HIPCs) to the IMF, the World Bank and the African Development Fund. This will be a key contribution to attaining the MDGs.

3. To maintain the favorable momentum of high growth and to stem unfavorable headwinds, fostering private-sector led growth supported by a sound policy framework is indispensable. While aid and debt forgiveness make an important contribution to poverty reduction, long-term durable reductions in poverty require a sustained process of growth driven by private-sector activity. Each developing country needs to have a specific and appropriate poverty reduction and growth strategy, tailored to the individual country circumstances and opportunities, at the heart of its national development. We propose to focus our support on the following two pillars: improving the investment climate and strengthening the financial sector.

Improving the Investment Climate

4. Building reliable infrastructure is crucial to encourage growth. According to the World Bank, Sub-Saharan Africa needs US$18 billion a year in infrastructure investment to achieve the economic growth target needed to halve extreme poverty in the region by 2015. In particular, facilitating the trade of landlocked countries should be a priority. We therefore are increasing contributions to develop cross border infrastructures such as transport corridors and electricity networks, and port and storage facilities, and to promote PPP (public private partnerships) in building reliable infrastructures. We welcome the AfDB's expansion of infrastructure financing including through the EPSA (Enhanced Private Sector Assistance), the European Union's support for infrastructure through the 10th EDF (European Development Fund), and the World Bank's Sustainable Infrastructure Action Plan. We call on MDBs (Multilateral Development Banks) and the ICA (Infrastructure Consortium for Africa) to work together with African governments to

build Africa's institutional capacity to develop, implement and manage economically sustainable infrastructure projects. We continue to believe that particular attention should be paid to developing regional economic communities' capacity in the field of planning and implementation of cross-border infrastructure projects.

5. Raising productivity across the board is vital. Capacity building of SMEs (small and medium sized enterprises) should be encouraged. SMEs make up the bulk of Africa's businesses. Based on recent investment climate surveys, firms with less than 50 employees represent about 88% of private sector production in Africa. However, broad-based entrepreneurship remains lacking in many countries. We will help African governments facilitate the expansion of emerging industrial clusters and improve their opportunities to compete in global markets. We support the AfDB's work in setting up a framework to dispatch appropriate SME specialists to assist with the capacity building of SMEs. It is also essential to improve productivity in the agricultural sector to help address high food prices.

6. We affirm the importance of good financial governance for supporting sustainable pro-poor growth and boosting investor confidence in Africa. To send a positive message to potential investors, fairness and transparency in taxation, procurement, and concession-letting, as well as reliability in the reporting of public economic, monetary and fiscal data are important. We continue to encourage countries to make publicly available the results of independent diagnostic work on their public financial management systems. We will also support governments in maintaining the sustainability and improving the management of public debt.

7. We stress the importance of long-term fiscal discipline for resource-rich countries in order to realize the full potential of internal financing for development. We ask the IMF, working closely with the World Bank, to bring together the latest experiences of managing resource revenues and make advice available to partner countries. It is crucial to transform resource revenues into productive investments, including in education and infrastructure. We recognize the usefulness of EITI (Extractive Industries Transparency Initiative) as a framework for improving the accountability and transparency of revenues from extractive industries. In order to fully realize EITI's potential, we call on candidate countries to complete the validation process in a timely manner. We urge its Secretariat to focus on assisting countries to that end and to support the international extractive industries in implementing this initiative.

8. National regulatory frameworks should be strengthened to attract and retain private capital. Complicated regulatory barriers reduce incentives for African entrepreneurs to enter the formal economy. While a few African countries are making progress in simplifying business regulations, much is still to be done in most others. To this end, we encourage countries to use surveys, such as the World Bank's "Doing Business Reports," as indicators of possible barriers to business and of reform efforts. We renew our commitment to the existing technical assistance facilities focusing on the promotion of anti-corruption enforcement, and the reform of regulations, taxation and customs, such as the IFC (International Finance Corporation)'s PEP (Private Enterprise Partnership) Africa, the World Bank's FIAS (Foreign Investment Advisory Services) and the multi-donor ICF (Investment Climate Facility). In order to identify the most relevant and efficient reform paths, we will encourage the IMF to work further on the issue of capital flight.

9. A focus should be put on securing property rights and expanding access to the formal economy. The majority of economic activity in developing countries is outside of the formal economic system. Insecure property rights limit access to credit and incentives for investment. Efforts to better secure property rights and enhance the poor's access to the formal economy have the potential to produce large, measurable returns. We will ask the World Bank to take stock of their current efforts to develop property rights systems in countries and report to us on the lessons learned. We will also ask the World Bank, in conjunction with other appropriate bodies, to examine the feasibility, including a cost analysis, of developing best practices to guide policy reforms in the areas of property rights and access to the formal economy, while respecting traditional property rights systems.

10. We will continue to help African countries' efforts to promote trade and to support African countries improve their customs and relevant border services by promoting "One Stop Border Post" through technical assistance in collaboration with the World Customs Organization. More broadly through implementing our commitments on "Aid for Trade", we will address constraints on capacity to trade by providing support in a range of areas such as trade policy reform, trade-related infrastructure and trade facilitation. In particular, we will aim to improve and deepen regional integration to enlarge regional markets and south-south trade.

11. We will ask the World Bank and the AfDB, in cooperation with the ICF and noting the report of the Spence Commission on Growth and Development, to study how to address comprehensive investment climate reform in Africa, and report back to us at the next G8 Summit Finance Ministers' Meeting.

<u>Strengthening the Financial Sector</u>

12. Better access to financial services is key to enhancing the economic well-being and financial security of households. It is also crucial for promoting SMEs' activities and, at an even earlier stage, enabling entrepreneurs to launch their first business venture. We welcome recent improvements, but banking systems in Africa are small in absolute terms and are insufficiently responsive to the needs of poor households, micro-enterprises, and SMEs. Building stronger institutional and regulatory capacity, including for the principles of bank operations, is central to achieve increased access to financial services. In addition, African borrowers often either fund long-term investments with short-term liabilities in local currency, or they resort to long-term, hard currency debt from international investors. Both options create a financial mismatch that often results in unforeseen costs and risks. We initiated the "Partnership for Making Finance Work for Africa" to assist African countries in strengthening their financial markets and to facilitate coordination among development partners in the financial sector.

13. We will support capacity building of local banks. We back the AfDB's capacity building of local banks including through the EPSA, and encourage a wider use of risk mitigation schemes such as guarantees of bank credit to SMEs. We will expand local currency financing for African borrowers, especially SMEs. We note the activities of TCX (The Currency Exchange Fund) which offers currency and interest rate derivatives for investment in developing countries.

14. We will boost the development of local bond markets. Considering the huge financial demands for infrastructure development and private sector activity, deep and well functioning local currency bond markets are key to reducing local enterprises' dependency on loans and broadening financial opportunities. We continue to emphasize the importance of technical assistance for local bond markets development in African countries. Applying the knowledge and experiences gained through initiatives in Asia, such as the ABMI (Asian Bond Markets Initiative), may be useful. We will also back MDBs' programs that invest in local currency bonds in developing countries and provide technical assistance to governments, regulators and market participants.

15. We will continue to encourage private investment in African countries. Private capital flows to Africa have increased significantly in recent years as investors take advantage of Africa's benign macro-economic conditions, comparatively high yields, and improving investment climate. In 2006, net private capital flows ($39.8 billion) exceeded bilateral aid grants ($36.9 billion) for the first time since 1999. Maintaining private capital flows to Africa and diversifying them across countries, including fragile states, and to non-extractive industries is critical. We will boost bilateral and multilateral supports for investment funds which provide smaller African companies with long-term financing. Such supports can help leverage participation from private investors who would be otherwise reluctant to commit their funds. The knowledge, skills and remittances from African diasporas should also be better mobilized. With respect to remittances, we are looking forward to progress along the line with the G8 conference recommendations. We will continue to strengthen the initiative to facilitate remittance flows, which focuses on improving data, development impacts, remittance services, access to finance, and innovative channels.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 16, 2008
HP-1030

Treasury Designates Seven Members of the Rajah Solaiman Movement

Washington - The U.S. Department of the Treasury today designated seven members of the Rajah Solaiman Movement (RSM), a Philippines-based group that utilizes violence and terrorism with the aim of turning the Philippines into an Islamic state. The U.S. Department of State also named RSM and its leader, Ahmad Santos, as Specially Designated Global Terrorists (SDGTs) today.

"The leader and members of the Rajah Solaiman Movement are responsible for reprehensible acts that include killing citizens and tourists in the Philippines to advance their terrorist agenda," said OFAC Director Adam J. Szubin. "Today's action will make even basic operational functions more difficult for RSM and its members by increasing their isolation from the international financial system."

Along with RSM, these eight individuals were added to the U.N. 1267 Sanctions Committee's Consolidated List of individuals and entities associated with Usama bin Laden, al Qaida and the Taliban on June 4. All UN member states are obligated to freeze the funds and other assets of listed individuals and entities included on the 1267 Committee's Consolidated List and to apply other sanctions (travel ban and arms embargo). The United States implements its asset freeze through E.O. 13224, which blocks all property, and interests in property, of the designees that are in the United States, or come within the United States, or the control of U.S. persons.

RSM has assisted with the terrorist plots of the al Qaida-affiliated Abu Sayyaf Group (ASG) in Manila and other areas in the northern Philippines. According to Philippine security officials and other sources, RSM members were involved in the ASG's bombing of Super Ferry 14 in February 2004 and the February 2005 Valentine's Day bombings. RSM members were involved in several plots to bomb high-profile targets, as well, including Manila public utilities, tourist areas, and the U.S. Embassy in Manila.

RSM has received training, funds, and operational assistance from the ASG and Jemaah Islamiyah (JI), two terrorist organizations previously added to the UN's Consolidated List and designated by the United States as SDGTs on September 24, 2001 and October 23, 2002, respectively. RSM, in return, has provided field operatives and a pool of potential recruits to the ASG and JI, enabling them to expand their reach into the urban areas of the Philippines.

As of 2004, RSM reportedly received funding from private Saudi sources that channeled funds through charitable NGOs in the Philippines. Between 2002 and late 2005, Saudi financiers and at least one Saudi-based Filipino financier also contributed funds to RSM for its training camps and planned terror operations.

Identifying Information

ANGELO RAMIREZ TRINIDAD

- AKAs: Angelo Trinidad y Ramirez
  Khalil Trinidad
  Khulil Trinidad
  Abu Khalil Trinidad
  Calib Trinidad
  Kalib Trinidad
  Adrian Tomas
- DOB: 20 March 1978
- POB: Gattaran, Cagayan Province, the Philippines
- FORMER ADDRESS: 3111 Ma. Bautista, Punta, Santa Ana, Manila, the

Philippines
- NATIONALITY: Filipino

Angelo Ramirez Trinidad is a member of RSM, and at the time of his arrest in February 2005, was also a member of an ASG operational cell in Manila.

On the orders of senior ASG figure Jainal Antel Sali, Trinidad and an accomplice conducted the February 2005 Valentine's Day bombing of a passenger bus in Manila that killed six and wounded over 100. Trinidad assembled the bomb, helped plant it on the bus and triggered it by cell phone. The ASG publicly claimed credit for this bombing. A Philippine court convicted Trinidad of the bombing in October 2005. Sali, now deceased, was named as an SDGT pursuant to E.O. 13224 on November 30, 2005 and was added to the UN's Consolidated List on December 6, 2005.

In February 2005, ASG members positively identified Trinidad as having participated with the ASG in the April 2000 kidnappings of 21 foreign tourists and Malaysian workers from Sipadan Island, Malaysia.

PIO ABOGNE DE VERA

- AKAs: Pio de Vera y Abogne
  Pio Abogue de Vera
  Pio Abagne de Vera
  Leo M. Obogne
  Ismael de Vera
  Ismail de Vera
  Esmael de Vera
  Manex
  Tito Art
- DOB: 19 December 1969
- POB: Bagac, Bagamanok, Catanduanes Province, the Philippines
- FORMER ADDRESS: Concepcion, Zaragosa, Nueva Ecija Province, the Philippines
- NATIONALITY: Filipino

Pio Abogne de Vera is a member of the ASG. At the time of his arrest in December 2005, he was also believed to be RSM's second-in-command and its operations officer.

De Vera played an active role in an RSM plot to bomb civilian targets in Manila in 2005. He purchased and transported the explosives and scouted targets frequented by Americans and other foreign nationals. Philippine authorities disrupted this plot before its execution.

De Vera also was one of two persons tasked in 2003 with executing another aborted RSM plot to bomb several targets in Luzon, the Philippines, including telecommunications and power facilities.

REDENDO CAIN DELLOSA

- AKAs: Redendo Dellosa y Cain
  Redendo Cain Jabil Dellosa
  Hakid Akmal
  Habil Akmad Dellosa
  Habil Ahmad Dellosa
  Reendo Cain Dellos
  Ahmad Dellosa
  Abu Llonggo
  Abu Ilonggo
  Abu Muadz
  Brandon Berusa
  Arnulfo Alvarado
- DOB: 15 May 1972
- POB: Punta, Santa Ana, Manila, the Philippines
- FORMER ADDRESS: 3111 Ma. Bautista Street, Punta, Santa Ana, Manila, the Philippines
- NATIONALITY: Filipino

- PHILIPPINE SSN: 33-3208848-3

Redendo Cain Dellosa is an RSM leader, as well as a member of the ASG. Philippine authorities arrested Dellosa in March 2004.

Dellosa allegedly led the February 2004 bombing of a passenger ferry in Manila Bay that killed over 100 people. Dellosa reportedly planted the bomb, and the ASG publicly claimed credit for the attack.

In early 2004, ASG leader Khadafi Janjalani (SDGT), now deceased, tasked Dellosa, through an associate, to devise a plan to kill Philippine Vice Presidential candidate Loren Legarda. Dellosa admitted to authorities that he had decided to place a bomb at one of her campaign stops.

Philippine authorities charged Dellosa with participation in the ASG's 2001 kidnapping of 20 people, several of whom were killed, from the Dos Palmas resort in Palawan, the Philippines. He was also reportedly implicated in the ASG kidnapping of 21 people on Sipadan Island, Malaysia, in 2000.

FELICIANO SEMBORIO DELOS REYES, JR.

- AKAs: Feliciano de los Reyes
  Feleciano Semborio Delos Reyes
  Feleciano Delos Reyes y Semberio
  Feliciano Abubakar De Los Reyes
  Ustadz Abubakar Delos Reyes
  Abubakar Reyes
  Ustadz Abubakar Abdillah
  Abubakar Abdillah
  Abdul Abdillah
  Jorge Castro
- DOB: 04 November 1963
- POB: Arco, Lamitan, Basilan Province, the Philippines
- NATIONALITY: Filipino

Feliciano Semborio Delos Reyes, Jr. is a founding member and a senior leader of RSM. In 2006, Reyes conducted military and counterintelligence training in the Philippines for students of an ASG and JI-linked educational center.

In April 2003, Reyes reportedly joined with the ASG in planning and preparing a proposed bombing in Manila.

Reyes also participated in the February 2003 Awang airport bombing near Cotabato City, the Philippines, which killed one soldier and wounded three civilians. Philippine Government authorities arrested Reyes in December 2006.

RICARDO PEREZ AYERAS

- AKAs: Ricardo Abdulkarim Ayeras
  Ricardo Abdulkareem Ayeras
  Ricky Ayeras
  Abdul Kareem Ayeras
  Abdul Karem Ayeras
  Abdul Karim Ayeras
  Abdul Karim Ayers
  Khalil Ayeras
  Isaac Jay Galang Perez
  Jay Perez
  Abdul Mujib
- DOB: 15 September 1973
- POB: 24 Paraiso Street, Barangay Poblacion, Mandaluyong City, Manila, the Philippines
- FORMER ADDRESS: 24 Paraiso Street, Barangay Poblacion, Mandaluyong City, Manila, the Philippines
- NATIONALITY: Filipino

Ricardo Perez Ayeras is a member of RSM. Philippine Government authorities arrested Ayeras in January 2007 for his role in the February 2005 Valentine's Day bombing of a passenger bus in Manila that killed six and wounded over 100.

Ayeras was also a central player in RSM's 2005 "Big Bang" plot to bomb civilian targets in Manila. Ayeras was to drive the bomb-laden car, staying with it as a suicide bomber, if necessary. He also helped purchase the explosives for the plot. In addition, a JI operative channeled several thousand U.S. dollars, probably destined for this same attack, through Ayeras's ATM account.

RUBEN PESTANO LAVILLA, JR.

- AKAs: Reuben Omar Lavilla
  Omar Lavilla
  Reuben Lavilla
  Ahmad Omar Sharief
  Shaykh Omar Lobilla
  Omar Labella
  Reymund Lavilla
  Mile D. Lavilla
  Mike De Lavilla
  Abdullah Muddaris
  Ramo Lavilla
- DOB: 04 October 1972
- POB: Sitio Banga Maiti, Barangay Tranghawan, Lambunao, Iloilo Province, the Philippines
- FORMER ADDRESS: 10th Avenue, Caloocan City, Manila, the Philippines
- ALT. FORMER ADDRESS: Sitio Banga Maiti, Barangay Tranghawan, Lambunao,
  Iloilo Province, the Philippines
- NATIONALITY: Filipino

Ruben Pestano Lavilla, Jr. founded RSM, along with Santos and others, and is believed to have taken over as RSM's political, religious and strategic leader following Santos's 2005 arrest. Lavilla is considered RSM' s spiritual advisor.

Lavilla channeled funds to RSM from personal Arab contacts. At some point before 2003, Lavilla also personally couriered approximately US $200,000 for RSM.

Lavilla was part of the ASG-sponsored cell that carried out the February 2004 bombing of a passenger ferry in Manila Bay that killed over 100 people.

DINNO AMOR ROSALEJOS PAREJA

- AKAs: Dino Amor Rosalejos-Pareja
  Dinno Rosalejos Pareja
  Khalil Pareja
  Kahlil Pareja
  Khalil Pareja Aminah
  Johnny Pareja
- DOB: 19 July 1981
- POB: Cebu City, Cebu Province, the Philippines
- FORMER ADDRESS: Atimonan, Quezon Province, the Philippines
- NATIONALITY: Filipino

Dinno Amor Rosalejos Pareja assumed a senior leadership role for RSM following the arrests of RSM leader Santos and RSM second-in-command De Vera in 2005.

Pareja was the key operative in the August 2005 twin bombings in Zamboanga City, the Philippines, which wounded 26 people. In November 2006, Pareja led a group in casing bombing targets in Cebu City, the Philippines, for an attack planned to coincide with the Association of Southeast Asian Nations summit. Senior ASG figure Jainal Sali, now deceased, directed Pareja to conduct this attack. Earlier, around 2004, RSM leader Santos entrusted RSM funds to Pareja.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

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June 16, 2008
HP-1031

Treasury Removes 60 Names from Narcotics Traffickers List

Washington - The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today removed from its list of Specially Designated Narcotics Traffickers 60 individuals who, since their designation, have severed ties with Colombia's notorious Cali drug cartel and are assisting Colombian authorities. All 60 individuals are Colombian employees of Copservir, a previously-designated enterprise that operated a retail drugstore chain before the Colombian government seized control of its operations in September 2004.

"Removing the names of these Copservir employees from the list of Specially Designated Narcotics Traffickers is the result of close cooperation with the Colombian government," said OFAC Director Adam J. Szubin. "Today's action represents a success in OFAC's targeting of Colombian drug cartels, as these 60 individuals have cut ties with the Rodriguez Orejuela narcotics trafficking organization and have instead cooperated with the Colombian authorities during the forfeiture process."

Copservir remains under the control and administration of the Colombian government. The ownership interests in Copservir that are held by narcotics traffickers Miguel and Gilberto Rodriguez Orejuela and their family members are in the process of being forfeited.

The Rodriguez Orejuela brothers were the leaders of the Cali drug cartel, once the most powerful cocaine trafficking organization in Colombia. Both are serving prison sentences in the United States after pleading guilty to federal narcotics trafficking and money laundering charges in September 2006. Today's action was not dependent on the Rodriguez Orejuela brothers' guilty pleas nor does it affect the Colombian government's forfeiture case against Copservir's assets.

In November 2004, OFAC adopted a policy to issue specific licenses, on a case by case basis, to authorize U.S. suppliers to engage in certain transactions with Copservir. These licenses were issued provided that Copservir continued to operate in a legitimate manner and under the control of the Colombian government. The ability of U.S. suppliers to obtain licenses to engage in transactions with Copservir preserved the jobs of several thousand Colombians who were unknowingly manipulated by Miguel and Gilberto Rodriguez Orejuela.

The 60 individuals removed today were previously listed as Specially Designated Narcotics Traffickers pursuant to Executive Order 12978 of October 21, 1995, which applies financial sanctions against Colombia's drug cartels. The names of the 60 individuals are available at:

http://www.treas.gov/offices/enforcement/ofac/actions/

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

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June 17, 2008
hp-1032

**Opening Statement by Secretary Henry M. Paulson, Jr.
at the Fourth Meeting of the U.S. – China Strategic Economic Dialogue**

Annapolis, Maryland -- Welcome to the distinguished Chinese delegation and U.S. officials who are here today. We are gathering for two days of cooperation, education and work on a range of economic issues vitally important to both of our countries. I offer a particular welcome to my new counterpart, Vice Premier Wang Qishan, in his new role for his country.

This meeting is the first opportunity for my Cabinet colleagues to collectively meet and work with China's newly appointed leadership team. We look forward to continuing our progress towards mutual solutions and shared goals through the Strategic Economic Dialogue.

Today – as has been the case each day since the Sichuan earthquake – our thoughts and prayers are with the Chinese people as they work to meet the challenges resulting from this terrible tragedy. As President Bush has said, the United States stands ready to help in any way possible, including helping China to rebuild the devastated area.

The U.S. – China economic relationship is complex, broad and important to both our countries and to the world economy. The U.S.-China relationship has become central to each nation's interest and to maintaining a stable, secure and prosperous global economic system. Through the on-going, dynamic and respectful discussions of the SED, the relationship is growing in a positive direction. The SED has brought concrete progress on issues important to the U.S., Chinese and global economy faster than would have been possible otherwise.

At this meeting, we will build on previous progress, including landmark agreements on food, feed and product safety announced at our December SED meeting in Beijing. In December, we announced that the U.S. will provide technical assistance for China to develop and implement a nationwide SO2 emission trading program in the power sector and that we have signed a memorandum of understanding to combat illegal logging. The SED has also led to a civil aviation agreement that resulted in a new non-stop flight between Atlanta and Shanghai this past March, and a new group-leisure travel agreement that is estimated to bring up to 100 million Chinese travelers to the United States over the next 15 years.

These are a few examples of success resulting from on-going collaboration through the SED, and candid high-level discussions and understanding each other's priorities and interests. By definition, the U.S. – China economic relationship is complex, yet the complexity has not interfered with our ability to build a base of trust. The United States and China don't always agree on economic issues. Sometimes we may even disagree quite strongly, but we keep talking. That was the purpose of establishing the SED – to keep this most important and complex relationship on an even keel, even in times of tension.

At this week's meeting, we will have a robust discussion of our economic relationship as we envision a future of sustainable economic growth. We will look at managing financial and macroeconomic cycles. Both the United States and the Chinese economies face current challenges, including higher energy and food prices. The United States is working through a housing market correction and re-pricing of risk in credit markets. China is grappling with rising inflation and growing internal and external macroeconomic imbalances.

The state of our economies affects our people, and affects world prosperity. As we manage through the current challenges, we must also focus on the long-term fundamentals that underlie sustainable growth in both our nations. During the course of these two days, I will highlight how free trade, competition and open economies are essential. Openness and trade create jobs and opportunities for people to rise out of poverty, and are necessary for economic growth and stability – in both China and in the United States.

And we will discuss the steps needed to ensure that our countries and the world economy remain open to trade. We will discuss the best way to promote and protect bilateral investment and to counter protectionist pressures. We will discuss how open and competitive financial markets, including currency markets, are more resilient in times of turmoil and more vibrant and efficient in supporting balanced economic growth.

Both China and the United States want to enhance innovation and encourage development of intellectual property-intensive industries. At the same time, we must protect intellectual property rights, further transparency and rule of law, and stop the global trade in fake products. We will discuss our on-going efforts in these areas, as well as efforts to improve food and product quality and safety, and support green energy and environmental product markets.

We will also discuss the structural imbalances and the saving rate challenge facing each of our economies. In the United States our saving rate is too low. In China it is too high. In order to effectively deal with this issue, we must address how to adequately provide for our aging populations, including the role of private and public insurance and financing for social services such as health care and retirement.

Finally, we will also advance joint opportunities for cooperation on energy security and the environment. As the two largest net importers of oil, China and the United States face similar challenges as demand for energy increases, and the global production capacity has remained relatively flat for the past ten years.

We have a strong and shared interest in avoiding supply disruptions, increasing energy efficiency, promoting the efficiency and transparency of the global energy markets to the benefit of all oil importing nations, and expanding the availability and use of alternative energy sources. We will continue working together on joint efforts already in place, such as a five-year commitment to promote alternative fuel technologies for vehicles, and explore new possibilities.

We will address many of these through the framework of ten years of cooperation on energy and environmental issues announced at our December SED meeting. Since December, we have been adding details to this framework and I am pleased with the possibilities for innovation and cooperation ahead of us.

Significant opportunity exists for the United States and China to achieve immediate progress and make long-term strides towards energy security and environmental sustainability. Through a ten year framework of cooperation, I believe that we have the foundation to meet these challenges.

Our meetings today and tomorrow will move the United States and China even further forward to a stronger economic future. Again, welcome to our new Chinese colleagues. We are building upon a shared vision that is possible because of our cooperation, and feasible because of our commitment to the prosperity of our people. Thank you.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 17, 2008
HP-1033

Under Secretary Steel Statement on HOPE NOW Guidelines to Speed Help to Homeowners

Washington- Treasury Under Secretary for Domestic Finance Robert K. Steel made the following statement today regarding the release of new HOPE NOW guidelines to provide help to homeowners quickly and to deal with issues surrounding second mortgages and short sales.

"The HOPE NOW procedures announced today will allow even more homeowners to get help faster. We are pleased to see the alliance members continually making improvements and expect them to maintain their efforts. As we have said, there is no one silver bullet to address every housing challenge, but if we continue pursuing a series of measures and initiatives, we can have a maximum impact."

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June 18, 2008
HP-1034

Assistant Secretary for International Affairs Clay Lowery Testimony Before the House Committee on Financial Services

Washington – Chairman Frank, Ranking Member Bachus, members of the Committee, thank you for the opportunity to discuss the Administration's request for authorization to participate in the 15th replenishment (IDA15) of the International Development Association (IDA). IDA is the main vehicle of the World Bank to support 82 of the poorest countries around the world, by providing the largest source of interest-free loans, grants, and debt relief of any multilateral development institution. Our request for authorization of $3.705 billion over three years represents a 30 percent increase over IDA14. We know this is a significant increase but we believe there are compelling arguments for this request and for the longstanding U.S. support for IDA.

There are a myriad of reasons to support the authorization and appropriations of IDA. Today, I want to highlight three: effectiveness, leverage and coordination, and U.S. foreign policy objectives. I will then briefly touch on our specific achievements in the recently concluded IDA15 replenishment negotiations.

The IDA Model and Development Effectiveness

The IDA model is *country focused*. Countries receive assistance from IDA that reflects their own priorities. IDA not only works across sectors such as agriculture, education, infrastructure, and health, but it builds systems and capacity within governments to be able to tackle the barriers to growth and poverty reduction. For instance, bilateral assistance in a given country could be targeted towards specific needs such as HIV/AIDS retroviral drugs. IDA then could focus on the health system to ensure services are delivered and the proper standards of care are in place. By focusing on systemic issues in each country, coordinating across sectors and donors, IDA helps other development assistance be more effective as well.

IDA is *performance driven* and allocates resources to good performers. Findings of the past 10 years of research on aid effectiveness confirm that reform-minded governments are much more accountable to their citizens and manage aid and their own resources more efficiently. In IDA, the top performing 10 percent of countries receive seven times as much assistance on a per capita basis as the poorest performing 10 percent of countries.

As one of the top donors to many of these countries, IDA has played a large role in helping countries achieve their development goals. In IDA countries for instance,

- People are living, on average fifteen years longer than they did forty years ago.
- Illiteracy has been cut in half over the past thirty years, from 50 percent to 25 percent of the population, and 80 percent of children now complete primary education.
- Regulatory obstacles to private sector development have been reduced by one-sixth between 2003 and 2005.
- Real GDP per capita has grown by 4.9% annually between 2002-2005; more than double the average rate between 1990 and 2002.

There are many country specific success stories but to highlight one:

In Senegal, IDA supported the country's rural infrastructure projects, which improved roads, strengthened decentralization and financed micro-projects including water, schools, livestock, and other development needs. Beneficiary households in the 110 participating rural communities reported a 25 percent increase in incomes. Fiscal revenues for rural communities in the project area almost tripled. Markets, schools, and health facilities are now more accessible (children now typically spend 10 minutes going to school instead of 30), and the weight and height of children under three years of age have improved.

IDA's focus on quality and country-level effectiveness also led it to become the first international financial institution to introduce a results measurement system to systematically track key country outcomes as well as IDA's contribution to those outcomes. The measurement system provides an accountability function to demonstrate more precise results from resources invested, and a learning function to improve project design and direct resources to solutions that work.

These efforts are being noticed. In a recent article, William Easterly, a notable development expert and frequent critic of development assistance providers, ranked IDA as the number one donor using best practices in aid in his evaluation of 39 multilateral and bilateral donor agencies. In addition, DFID, the UK development agency ranked IDA as the most effective multilateral development bank and used this rationale as justification for increasing their IDA15 contribution by 50 percent.

Leverage and Coordination

As a multilateral institution, IDA provides financial leverage for development resources. For every dollar that the United States contributed to IDA14 (FY06 – FY08), IDA was able to provide more than $13 in loans and grants from other donors and World Bank resources, a number which is expected to increase to $15 during IDA15 (FY09-FY11). Further, IDA's investment in a country can signal to investors that the country is making progress and open for business, generating private sector flows.

IDA's leverage is not simply financial. IDA, and more broadly the World Bank's role in convening and coordinating donors at the country's request can make the impact of the whole greater than the sum of its parts. By providing a common platform, fragmented aid from multiple sources can align towards meeting a recipient country's development goals. At a time when the average number of donors per country has grown from 12 in the 1960s to more than 30 today, IDA can support the country by providing coherence among donors, sharply reducing the transaction costs for recipient countries, thereby focusing that more aid and government resources are used to support growth.

The increasingly complex "international aid architecture" underscores the importance of IDA's country-based model to improving the quality of aid and creating a more effective environment for U.S. bilateral assistance. This, of course, requires sufficient resources and reflects the tremendous non-financial assistance that IDA puts at the disposal of governments in their struggle to meet the development challenges they face. A compelling example of this convening power has been the World Bank's response to increasing food prices. Through the effective leadership of President Zoellick the World Bank has played a central role in galvanizing the international community in trying to meet not only the short-term needs of many poor countries but also advocating the appropriate policies to address ways to increase agricultural productivity in the long run.

Support for U.S. Foreign Policy Objectives

The United States has a wide international reach; however, we can't do it alone. The greatest opportunities and the most serious threats to U.S. interests now come from the developing world. While IDA accounts for only a small percent of the Administration's foreign assistance request, its global reach and expertise make it a very effective instrument for advancing U.S. strategic objectives abroad. Some notable recent IDA efforts include: (1) providing debt relief for the poorest countries;

(2) helping countries develop and reform their financial systems and develop their local capital markets; (3) assisting post-conflict countries with economic revitalization and reconstruction; (4) preventing and controlling infectious diseases (such as avian flu); (5) providing assistance to help countries with anti-money laundering activities; (6) administering trust funds providing assistance to countries and global issues of importance to the United States; and (7) working to combat corruption and improve governance globally.

For instance:

- Since April 2002, the World Bank has committed $1.56 billion for 36 reconstruction projects and 3 budget support operations in Afghanistan. IDA's emergency assistance has rehabilitated schools and decentralized management to increase enrollment across grades, especially among girls. IDA's investments in roads since 2003 have helped to reconnect Kabul with the Tajikistan border, cutting travel time from 48 hours to about 6 hours, increasing opportunities for commerce.
- Even before Liberia was able to clear its arrears to the international financial institutions (IFIs), IDA was in that country providing technical advice and limited amounts of grant funding in order to pave the way for broader financial support from the donor community once arrears were cleared. U.S. financial support and leadership, particularly along with the G-8 and heads of the IFIs, encouraged 90 countries to reach consensus on clearing $1.4 billion arrears this past year. This was instrumental for Liberia's re-engagement with the world.

We have also been able to leverage substantial reforms through the replenishment process due to strong U.S. leadership and influence. Over the years, our reform agenda has taken IDA to new frontiers on measuring and achieving development results, securing grant finance for the poorest countries, and enhancing accountability and transparency. IDA, of course, was also critical to delivering the President's Multilateral Debt Relief Initiative (MDRI) in 2006 that is providing 100% debt relief to 21 Heavily Indebted Poor Countries (HIPCs). Our goals for IDA15 built on these successes.

IDA15 Achievements

In the IDA15 negotiations, the United States achieved all of its policy objectives, most of which built on core elements of reforms achieved in IDA14 and IDA13. The IDA15 and the African Development Fund (AfDF11) replenishments focused on key areas such as improving engagement in fragile and post-conflict countries, enhancing economic integration through a scale-up in regional infrastructure projects, strengthening the results measurement systems, and improving transparency. Let me expand on a few of these.

Fragile States: The challenges facing fragile states are important for the world – and especially IDA – to tackle more effectively. A large part of the focus in the replenishment agreement was to have IDA lead in better-coordinated advice on the ground where the interplay between political, security, and development objectives requires coherent policies that deal with multidimensional challenges, as well as find mechanisms to restore essential serves and jump start infrastructure investments.

Regional Integration: Some of the most pressing development needs identified, particularly by land-locked African countries, cannot be addressed only within that country and requires regional cooperation for needs such as water management, road networks, trade facilitation, and energy access. For most of their history, the MDBs have been designed to support programs in individual countries. Since IDA13 support for regional projects has become an increasingly important part of IDA's work program. In order to catalyze collaboration on specific projects among countries with differing development needs and resource profiles, in IDA15 funding is set aside to finance up to two-thirds of regional project cost. To ensure country commitment to project success, however, one-third of the cost must be funded by the participating country's IDA allocation.

Results Measurement: IDA was the first MDB to introduce a results measurement system to monitor development progress. It tracks individual country outcomes through indicators such as primary school completion rates and HIV prevalence rates, measures IDA's contribution to country outcomes through output indicators such as the number of teachers trained or facilities built, and tracks the number of projects that achieve their development objectives. Over the duration of IDA15, IDA will work to improve the quality of these data by building country statistical capacity. The agreement also commits IDA to continue efforts to link staff performance assessments to actual project results, thus placing the supreme value on the quality – not quantity – of assistance.

Why IDA and the Multilateral Approach?

A multilateral organization, such as IDA, has the scale and capacity to deliver development results better than any one donor does. By pooling donor contributions, IDA is able to multiply the impact of donor contributions, helping to make funding possible for long-term, large-scale projects such as road building or rural electrification. Sometimes an MDB such as IDA, by virtue of its structure as a member organization, can more easily work directly with governments to reform policies and improve capacity to achieve a country's own development agendas. MDBs are able to provide longer-term, predictable financing across sectors, generating efficiencies. The World Bank is able to design its interventions in IDA countries based on best practices and the lessons learned over time and in more developed countries. If we didn't have IDA, then I believe we would be working hard to create something very close to it.

The fight against global poverty is one of the biggest challenges of our time. As both a courageous and generous nation, the U.S. is a natural leader in this fight to support those in the greatest need. IDA is the most effective institution through which we can invest to achieve that goal. In supporting a country's own development plan, IDA can leverage other sources of funding, coordinate multiple donors around a shared goal, and is able to champion policies that are in line with U.S. policy priorities. This is not to say that IDA and the World Bank are perfect; rather it underscores the need constantly to re-evaluate IDA's approaches to find out what works and what doesn't work. Often with U.S. leadership, IDA has compiled an impressive record of adaptation and improved effectiveness.

But bold leadership also means fulfilling our commitments. We believe that the critical policy gains made in IDA15 on engagement in fragile states, regional integration, and results measurement justify the proposed 30% increase in resources to IDA. A three-year authorization is necessary for IDA to be able to make the long-term financing commitments needed to support country development plans. Since U.S. contributions to MDRI are funded through our contributions to IDA, full funding of our request to the MDBs is also necessary for the United States to meet its financial obligations to the costs of debt relief under MDRI. Continued arrears jeopardize the U.S. ability not only to deliver debt relief, but also to influence and lead IDA.

We respectfully urge your support for our request and I look forward to trying to answer your questions.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 18, 2008
hp-1035

Treasury Designates Leadership of the IJU Terrorist Group

Washington - The U.S. Department of the Treasury today designated two leaders of the Islamic Jihad Union (IJU), an al Qaida-affiliated terrorist organization with the goal of overthrowing the Uzbekistan government.

"Under the leadership of Jalolov and Buranov, IJU has terrorized innocents and killed civilians," said Adam J. Szubin, Director of the Office of Foreign Assets Control (OFAC). "Today's action and the parallel action by the UN demonstrate the international community's commitment to choking off the financial lifelines supporting IJU."

Najmiddin Kamolitdinovich Jalolov and Suhayl Fatilloevich Buranov were designated today under Executive Order 13224, which targets terrorists and those providing financial, technological, or material support to terrorists or acts of terrorism. Assets the designees hold under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in transactions in property or interests in property blocked under the order.

Jalolov and Buranov were also recently added to the U.N. 1267 Sanctions Committee's Consolidated List of individuals and entities associated with Usama bin Laden, al Qaida and the Taliban. All UN member states are obligated to freeze the funds and other assets of listed individuals and entities included on the List and to apply other sanctions, including a travel ban and an arms embargo. The United States implements this asset freeze through E.O. 13224.

Historically, IJU operates principally in Central and South Asia, however as of late 2007, IJU was also operationally active in Europe. In September 2007, three IJU operatives were arrested by German authorities for plotting attacks against various public venues and possibly against U.S. military facilities in Germany. In 2004, IJU claimed responsibility for suicide attacks against Uzbekistan government offices, the U.S. and Israeli Embassies in Tashkent, and a bazaar that killed at least 47 people.

IJU, AKA the Islamic Jihad Group (IJG), was named a Specially Designated Global Terrorist (SDGT) pursuant to E.O. 13224 on May 25, 2005, and added to the UN 1267 list in 2005. IJU was also designated as a Foreign Terrorist Organization (FTO) in 2005.

Identifier Information

NAJMIDDIN KAMOLITDINOVICH JALOLOV

Najmiddin Kamolitdinovich Jalolov is the leader of IJU, having created the organization after leaving the Islamic Movement of Uzbekistan in late 2001.

Jalolov was considered to have been a possible ringleader in the late 2007 IJU plot to conduct terrorist attacks in Germany. In late 2006, Jalolov instructed an IJU operative to case targets in Central Asia for a terrorist attack, directing him to pay close attention to certain targets including hotel complexes where visitors from Western countries stayed.

During trials related to the 2004 attacks in Tashkent, IJU members testified that Jalolov was the leader of IJU. Jalolov reportedly was one of the organizers of the terrorist acts in Uzbekistan in 2004 that killed at least 47 people.

AKAs: Nazhmiddin Kamoldinovich Zhalolov

Nazhmidin Kamoldinovich Zhalolov
Nazhmiddin Zhalalov
Najmiddin Jalalov
Najmiddin Jalolov
Nazhmiddin Zhalolov
Nazhmuddin Kamoldinovich Zhalolov
Abu Yahya Muhammad Fatih
Abdurakhmon
Yakh'yo
Yahyo
Najmiddin Kamilidinovich Zhanov

DOB: 1972
Alt. DOB: 1 April 1972
POB: Andijan region, Uzbekistan
Address: S. Jalilov Street 14, Khartu, Andijan region, Uzbekistan
Nationality: Uzbek

SUHAYL FATILLOEVICH BURANOV

As of late 2007, Suhayl Fatilloevich Buranov was the deputy IJU leader and was responsible for the organization's communications. As of late 2005, Buranov also prepared suicide bombers from among new IJU members. Buranov reportedly was one of the organizers of the terrorist acts in Uzbekistan in 2004 that killed at least 47 people.

AKAs: Suhail Fatilloyevich Buranov

Sukhail Fatilloevich Buranov
Suhail Buranov
Mansur Buranov
Sohail Mansur
Suhail Mansur
Abu Huzaifa

DOB: 1983
Alt. DOB: 11 October 1983
POB: Tashkent, Uzbekistan
Address: Massiv Kara-su-6, Building 12, Apartment 59, Tashkent, Uzbekistan
Nationality: Uzbek

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 18, 2008
hp-1036

Treasury Targets Hizballah in Venezuela

Washington - The U.S. Department of the Treasury today designated two Venezuela-based supporters of Hizballah, Ghazi Nasr al Din and Fawzi Kan'an, along with two travel agencies owned and controlled by Kan'an.

"It is extremely troubling to see the Government of Venezuela employing and providing safe harbor to Hizballah facilitators and fundraisers. We will continue to expose the global nature of Hizballah's terrorist support network, and we call on responsible governments worldwide to disrupt and dismantle this activity," said Adam J. Szubin, Director of the Office of Foreign Assets Control (OFAC).

Today's action was taken pursuant to Executive Order 13224, which targets terrorists, those owned or controlled by or acting for or on behalf of terrorists, and those providing financial, technological, or material support to terrorists or acts of terrorism. Assets the designees hold under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in transactions in property or interests in property blocked under the order.

Identifying Information

GHAZI NASR AL DIN

Ghazi Nasr al Din is a Venezuela-based Hizballah supporter who has utilized his position as a Venezuelan diplomat and the president of a Caracas-based Shi'a Islamic Center to provide financial support to Hizballah. Nasr al Din served until recently as Charge d' Affaires at the Venezuelan Embassy in Damascus, Syria, and was subsequently appointed the Director of Political Aspects at the Venezuelan Embassy in Lebanon.

Nasr al Din has counseled Hizballah donors on fundraising efforts and has provided donors with specific information on bank accounts where the donors' deposits would go directly to Hizballah.

Ghazi Nasr al Din has met with senior Hizballah officials in Lebanon to discuss operational issues, as well as facilitated the travel of Hizballah members to and from Venezuela. In late January 2006, Nasr al Din facilitated the travel of two Hizballah representatives to the Lebanese Parliament to Caracas to solicit donations for Hizballah and to announce the opening of a Hizballah-sponsored community center and office in Venezuela. The previous year, Nasr al Din arranged the travel of Hizballah members to attend a training course in Iran.

AKAs: Haj Ghazi Nasseredine

Ghazi Nassereddine

Gazi Nasseridine

Gazi Nasser El-Din

Ghazil Nasser Al-Din

Haj Ghazzi Nassereddine

Ghassan Attef Salame Nasserddine

Ghassan Nasr El Din Ghassan

Ghazi Nasserddine

Ghazi `Atef Nasraldine

Atef Salameh Nasserdine Ghasan

Hajj Ghazi `Atif Nasr al-Din

Venezuelan Cedula: 18.190.527

Venezuelan Passport: B-0472561

DOB: 13DEC 1962

POB: Lebanon

FAWZI KAN'AN

Fawzi Kan'an is a Venezuela-based Hizballah supporter and a significant provider of financial support to Hizballah. Kan'an has facilitated travel for Hizballah members and sent money raised in Venezuela to Hizballah officials in Lebanon.

Kan'an has met with senior Hizballah officials in Lebanon to discuss operational issues, including possible kidnappings and terrorist attacks. Further, Kan'an has also traveled with other Hizballah members to Iran for training.

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BIBLOS TRAVEL AGENCY

Biblos Travel Agency is a Venezuela-based travel agency owned and operated by Fawzi Kan'an, which he has used to courier funds to Lebanon.

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HILAL TRAVEL AGENCY

Formed in April 2001, Hilal Travel Agency is a Venezuela-based travel agency owned and operated by Fawzi Kan'an.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 18, 2008
HP-1037

Closing Statement by Secretary Paulson at the Fourth Meeting of the U.S. China Strategic Economic Dialogue

Washington, DC-- Good afternoon. We have reached the conclusion of our fourth meeting of the Strategic Economic Dialogue. Thank you to my Cabinet colleagues for your active participation at this meeting. And, of course, I thank our Chinese colleagues for their continued commitment to the SED. To my counterpart, Vice Premier Wang Qishan, it has been our pleasure to host you and your countrymen here. I know that I will talk to you many times before then, yet I also look forward to seeing you later this year for our fifth SED meeting.

Our discussions these last two days covered a wide range of priority issues for both our nations. I believe I speak for all of my Cabinet colleagues when I say that the SED has fostered broad, productive relations. Our discussions have gained momentum, leading to progress on a number of fronts this week, and creating a foundation for timely progress going forward. While these direct discussions may suspend for a day or two as our Chinese colleagues return home, the break will not last much longer than that, as intensive work continues between these biannual meetings.

Through the SED, we deal with long term strategic issues important to the prosperity of the American people, the Chinese people, and the global economy. At this meeting we grappled with the most important, strategic issues in our economic relationship. In particular, I believe we've begun two initiatives that over time will enable significant progress on two shared priorities – investment and energy and the environment.

Today, my colleague Vice-Premier Wang and I will sign a 10-year Energy and Environment Cooperation Framework, through which we will address some of the most important and difficult challenges facing our nations and the world today – energy security, environmental sustainability, and climate change.

China and the United States are the two largest net importers of oil. Together, the United States and China account for more than half of global coal consumption. And we are the two largest emitters of green house gasses. China's rapid development has relied on a rapid increase in energy use, particularly oil and electricity. Last year, China accounted for almost 50 percent of total growth in world oil demand.

Our interests in this area are very aligned. We seek energy security -- which is so vital to our economic security -- while taking the necessary steps and making the necessary technological advances to preserve the health of our planet. Success in this area will require a sustained long-term effort by our two countries. And although there are no short-term fixes or easy answers, we are making progress and the 10-year Framework provides a vehicle for us to achieve more tangible results this year while laying the foundation for a long-term productive engagement between our two nations, which is essential if we are to meet this challenge.

To address these long-term issues requires more than government to government cooperation. Through this 10-year Framework, our two governments will engage businesses, academics, and leading research facilities in both our nations to jointly explore new ideas, share knowledge, and commercialize new technology. Working in a multidisciplinary format will enhance the productivity of this collaboration between our nations.

The 10-year Framework will center around five areas -- electricity, air, water, transportation, and conservation of forest and wetland ecosystems. We will pursue the concept of EcoPartnerships as a potential vehicle for voluntary cooperative initiatives across public and private entities.

Trade and open investment are key sources of economic growth. Both nations renewed their commitment to work actively toward a positive conclusion of the Doha negotiations. We also established a Transportation Forum between our two countries that will identify important infrastructure needs across all modes of transportation and enable the free flow of trade in these areas between the US and China. We discussed the importance of open investment to both our countries.

I am particularly pleased that we agreed to launch negotiations of a bilateral investment treaty (BIT). The conclusion of a BIT would send a strong signal that our two nations welcome investment and will treat each other's investors in a fair and transparent manner. The US will pursue a comprehensive treaty based on the US model BIT, which reflects high standards of investor protection and provides legal protections for all economic sectors. Our two governments will begin these negotiations soon, and expect to have several rounds of discussions before the next SED meeting. We will work for a high-standard BIT, which is clearly in the mutual economic interests of both our nations.

During our meetings, we discussed the state of the US, Chinese and global economies. I provided an update on US financial markets, and described the steps we have taken to address immediate market stresses as well as medium-term steps we are taking to address policy issues arising out of recent market turmoil. We agreed that while the turmoil of recent months has created difficulties, the future prosperity of all our people requires that we fully participate in global financial markets, to balance our economies and fuel growth. The Chinese discussed several important incremental steps they are taking to open their financial markets. We also discussed the role of currencies in the global economy, and I told the Chinese I welcome the recent increased pace of appreciation of the RMB, and urge China to continue its move toward greater exchange rate flexibility, a crucial tool in controlling inflation and managing the domestic economy.

I am pleased that we continue to build stronger relationships between our leaders and our countries – that this innovative effort to strengthen a unique economic relationship is a success. We have managed through times of tension, and through leadership transition. And we will no doubt face future challenges. The mutual respect, trust and candor fostered through the SED will enable us to manage those challenges as well. Thank you.

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REPORTS

- U.S. Fact Sheet
- Joint U.S. – China Fact Sheet
- Joint U.S. -- China Fact Sheet on 10-Year Energy and Environment Cooperation Framework

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 18, 2008
HP-1038

U.S. – China Strategic Economic Dialogue Fact Sheets

Washington, DC--The following fact sheets were released today at the conclusion of meeting of the U.S. – China Strategic Economic Dialogue.

REPORTS

- U.S. Fact Sheet
- Joint U.S. – China Fact Sheet
- Joint U.S. – China Fact Sheet on 10-Year Energy and Environment Cooperation Framework

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE, June 18, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

U.S. Fact Sheet:
Fourth Cabinet-Level Meeting of the U.S.-China Strategic Economic Dialogue

The United States and China today concluded the fourth Cabinet-level meeting of the Strategic Economic Dialogue (SED). President George W. Bush and President Hu Jintao established the SED to create a Cabinet-level forum to develop strategies to reach shared long-term objectives while managing short-term challenges in our economic relationship. During the meeting held June 17 and 18, 2008 at the U.S. Naval Academy in Annapolis, Maryland, 9 U.S. Cabinet officials and agency heads joined Secretary Paulson for discussions with China's Vice Premier Wang Qishan and a delegation of 18 Chinese ministers and agency heads.

The SED is a mechanism for managing the U.S.-China economic relationship on a strategic basis. Stable and prosperous bilateral economic relations are increasingly important to both countries. At the meeting this week, leaders from both countries discussed the following topics: joint opportunities in energy and the environment, managing financial and macroeconomic cycles, investing in people, trade and competitiveness, and enhancing investment.

The dialogue in Annapolis builds upon the progress that has been made in U.S.-China bilateral economic relations since the beginning of the SED, including: progress on consumer safety issues, with discussions creating a new culture of collaboration between the U.S. and Chinese governments to promote the health and safety of American consumers; progress on financial sector reform, including the value of the RMB; a new bilateral civil aviation agreement, opening the Chinese air passenger and cargo markets to U.S. air carriers; steps to address energy security and environmental sustainability, including an agreement to establish a national emissions trading program in China and an agreement to strengthen cooperation on strategic oil stocks with the International Energy Agency; and a new tourism memorandum of understanding, facilitating visits for groups of Chinese tourists that is projected to be a significant driver of growth for the U.S. travel industry.

Joint Opportunities in Energy and the Environment

Building upon the Major Economies Process launched by President Bush last September as well as previous SED discussions, the United States and China have agreed to take further concrete steps to enhance collaboration between the two countries to promote energy security, and further environmental sustainability:

- Ten Year Energy and Environment Cooperation Framework: At the third Cabinet-level SED meeting, the United States and China announced the establishment of a working group to develop plans for extensive cooperation on energy and the environment over a ten year period. The United

States and China today announced that both countries have agreed to a framework for this cooperation, and have established joint task force groups to tackle challenges in five specific areas: electricity, air, water, transportation, and conservation of forest and wetland ecosystems.

- Eliminating Barriers to Trade in Environmental Goods and Services: Discussions in this area began at a broad level, and are now focused on the scope of product coverage and on the modalities for tariff reduction or as appropriate elimination, to facilitate a comprehensive WTO agreement on environmental goods and services.

- Cooperation with the International Energy Agency: Building on the commitment at the third Cabinet-level SED meeting to strengthen cooperation on construction and management of strategic oil stocks, China agreed to consider voluntary participation in the joint actions of IEA member countries during times of oil disruption, in line with the principles of the Five Country Ministerial and G8 Plus 3 energy ministerial agreements in Japan. Coordination with the IEA during times of oil disruption significantly increases energy security both globally and for the United States. China also agreed to strengthen collaboration with the IEA on areas such as global energy markets, energy efficiency, and clean energy technology.

- Sustainable Forest Management: The United States and China have agreed to promote global sustainable forest management, with both sides identifying specific regions and activities for joint cooperation by the next meeting of the Cabinet-level SED.

- Illegal Logging: The United States and China convened the first meeting of the bilateral forum under the Memorandum of Understanding on Illegal Logging and Associated Trade on June 13, 2008 and agreed to detailed follow-up work on priority areas.

Bilateral Investment

America's policy of bilateral investment is one of our economic strengths, and the United States continues to promote openness to trade and investment. Foreign direct investment into the United States stimulates growth and competitiveness, creates jobs, enhances productivity and prosperity, and fosters competitiveness. The United States and China reached a number of agreements that build upon both countries' mutual interests in supporting and promoting open investment and market-based competition:

- Bilateral Investment Treaty Negotiations: The United States and China have agreed to launch negotiations of a bilateral investment treaty. The conclusion of a BIT would send a powerful signal that our two countries are committed to open investment and to treating each other's investors in a fair and transparent manner. The United States will negotiate on the basis of the U.S. model BIT, which reflects high-standards of investor protection. We will pursue a comprehensive treaty that provides important legal protections for all economic sectors, including the right to non-discriminatory treatment, due process, transparency, free capital transfers, and compensation in the event of expropriation. We will pursue an agreement that enables investors to enforce these rights through independent international arbitration. Our two governments will begin negotiations soon and expect to have several rounds of discussions before the next SED meeting, but the timeline for concluding the negotiation will be determined by the quality of the agreement. We believe that a high-standard BIT is clearly in our mutual economic interests.

- Creation of an Investment Promotion Initiative: The United States and China jointly agree to create an investment promotion initiative, to enhance public recognition of the positive benefits of investment flows between our two countries.

- First Meeting of the U.S.-China Investment Forum: The first meeting of the U.S.-China Investment Forum was held on June 16th, with both sides discussing bilateral investment and agreeing to a framework and work plan. The Investment Forum is a platform allowing the U.S. to focus on practical investor concerns with the Chinese, such as the process of investment reviews, potential investment barriers in China, and encouraging increased job-creating Chinese investment in the United States.

- Sovereign Wealth Funds: China agreed that investment decisions by its state-owned investment firms will be based solely on commercial grounds.

Financial Sector Reform

The United States and China, as leaders in the global economy and in the international financial and trading systems, share a responsibility to promote balanced and sustained growth in their economies. A competitive and efficient financial sector will be an engine for growth in China's fast-growing economy, providing opportunities for American manufacturers and service providers.

During the fourth Cabinet-level SED in Annapolis, both sides discussed market turmoil of recent months and the repricing of risk in global markets. The United States reported on steps it is taking to address market turmoil in the short-term and in the intermediate term steps to address policy issues arising from recent turmoil. The Chinese reported on steps they are taking to open their financial services sector and further integrate into global markets.

The United States and China have reached a number of agreements resulting in further opening of China's financial services sector:

- Consumer Finance: China agreed to allow, on a pilot project basis, non-deposit taking foreign financial institutions to provide consumer finance. This agreement provides new opportunities for U.S. companies.

- Stock Exchange Listings in China: China agreed to allow qualified foreign companies to list on its stock exchanges through issuing shares or depository receipts.

- RMB-Denominated Bonds: China agreed to ease qualifications for foreign incorporated banks to issue subordinated RMB-denominated bonds. This will allow foreign banks, including U.S. banks, to raise capital and grow their business.

- Qualified Foreign Institutional Investors: China agreed to reduce the initial "lockup period" for the investments of certain Qualified Foreign Institutional Investors (QFIIs), creating new opportunities for U.S. mutual funds and money managers.

- Credit Rating Agencies: China agreed to allow existing credit rating agency (CRA) joint ventures to apply for a license to rate corporate bonds without reducing their existing percentage foreign equity stake, following entry into force of new U.S. regulations on Nationally Recognized Statistical Reporting Organizations. This action will expand business opportunities for foreign CRAs, including U.S. CRAs, in the Chinese domestic market.

- Insurance: China confirmed that it recognizes U.S. concerns regarding proposed regulations ("Administrative Methods of Equity Interest") that would restrict investment in Chinese domestic companies and that it will continue to fully consult and consider comments received from all interested parties. China also clarified that it had recently issued regulations ("Overseas Investment with Insurance Funds") which specify the relevant requirements to allow insurance companies in China –including foreign-invested companies-- to invest assets overseas. This should provide greater clarity regarding the requirements to manage such assets and will provide companies with greater flexibility in managing their business.

- Securities Joint-Ventures: As agreed to at the May 2007 Cabinet-level SED meeting, China reported that it had resumed its licensing of securities joint ventures by approving the application of Credit Suisse's investment banking operations in China, allowing Credit Suisse to participate in China's domestic stock underwriting market. Credit Suisse's Investment Banking Operations are headquartered in New York.

- Securities Scope of Business: As agreed to at the May 2007 Cabinet-level SED Meeting, China reported that it had acted to meet its commitment to allow foreign securities firms to expand their operations by granting CLSA brokerage and research licenses. This precedent will benefit U.S. financial institutions.

- Qualified Foreign Institutional Investors (QFIIs): Since committing to QFII expansion at the May 2007 Cabinet-level SED meeting, China has issued quotas for several new QFIIs. This action allows foreign mutual funds, including U.S. mutual funds, to invest in China's domestic stock market. This precedent will benefit U.S. financial institutions.

- RMB Appreciation: The RMB has appreciated 20.3% since July 2005 against the US dollar, and since the last SED, the annual pace of appreciation has accelerated to 14.6% compared to 3.4% in 2006 and 6.9% in 2007.

Trade and Competitiveness

The United States and China have made joint commitments and taken joint actions to ensure that our economies remain competitive in an economic environment shaped by globalization, including:

- Doha Round: The United States and China will work together with other WTO members to actively promote the conclusion of Doha Development Agenda negotiations, with the view to facilitating the development of multilateral trading system.

- Transportation Forum: The United States and China signed a Joint Declaration on Transportation Cooperation establishing a Transportation Forum between the two countries covering all modes of transportation. The Transportation Forum will help identify opportunities for, and work to reduce barriers to, American companies that desire to help design, construct and equip China's new roads, rail, port and aviation facilities, and to provide a broad range of freight, passenger and mail services within the country. The Transportation Forum will help identify transportation infrastructure needs and will identify bottlenecks, to enable a free flow of trade between the U.S. and China.

- Transparency: The United States and China agree to publish in advance for public comment, subject to specified exceptions, all trade and economic-related administrative regulations and departmental rules that are proposed for adoption, and provide a public comment period of not less than 30 days from the date of publication. China agrees to publish such measures for comment on the Chinese Government Legislative Information Website maintained by the Legislative Affairs Office of the State Council, and the United States agrees to publish such measures for comment in the Federal Register maintained by the National Archives.

- Intellectual Property Rights: The United States and China agreed to intensify cooperation on IPR protection through the IPR Working Group under the JCCT as soon as possible after the close of SED IV and prior to the 19th JCCT. Both sides agree to start the above mentioned cooperation with an introduction of China's recently published "Outline of National Intellectual Property Rights Strategy" and "Plan for IPR Protection Initiatives in 2008," and both sides may discuss issues that are not related to the claims of the current WTO dispute settlement.

The Safety and Quality of Products

The United States is one of the most open economies in the world. Ensuring the integrity of trade, the quality of products, and the safety of food, drug and medical devices is a continuing priority for the United States. Americans expect that goods and products sold in our marketplace are safe, and the United States continues to take steps with all trading partners to ensure the safety and quality of these goods and products.

To further enhance and strengthen our ongoing dialogue about the integrity of the trade relationship between the United States and China, the two countries reviewed progress on the implementation of a number of agreements to ensure China meets the strict requirements the United States has in place to protect consumers and ensure the safety and quality of products in our marketplace. These agreements cover the safety of drugs, medical products, food and animal feed. In addition, the two countries announced:

- Food and Drug Administration in China: The United States and China reached consensus that U.S. Department of Health and Human Services / Food and Drug Administration personnel shall be placed at the U.S. Embassy and Consulates General in China and agreed to work out detailed arrangements.

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE, June 18, 2008
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Joint U.S. – China Fact Sheet
Fourth U.S.–China Strategic Economic Dialogue

At the U.S. Naval Academy in Annapolis, Maryland on June 17 and 18, the United States and China held the fourth Strategic Economic Dialogue (SED). As special representatives of President George W. Bush and President Hu Jintao, Treasury Secretary Henry M. Paulson, Jr. and Vice Premier Wang Qishan served as co-chairmen of the SED.

Discussions at the fourth SED meeting led to a number of results in areas of strategic importance that strengthen and deepen the bilateral economic relationship, including:

I. Macroeconomic Cooperation and Financial Services

The United States and China reaffirm their commitment to continue working together to achieve sustained growth, maintain price stability, and ensure the smooth and orderly functioning of their financial systems, and agree to continue their cooperative approach to information sharing on financial services issues of mutual interest, and to consider further how to deepen cooperation to safeguard global financial stability. Moreover, the United States and China took the following actions and made the following commitments:

- The United States published an assessment of the causes of the current global financial market turmoil and its recommendations for financial services firms and regulators to strengthen their operations and procedures and plans to issue a follow-up statement later this year that will assess progress towards implementation of these recommendations and consider whether further steps are needed;
- China will complete, by December 31, 2008, an assessment of foreign participation in China's securities, futures, and fund management firms, and based on the results of its assessment, make policy recommendations on adjusting foreign equity participation in China's securities market;
- The United States has proposed new regulations that are consistent with the International Organization of Securities Commissions revised Code of Conduct for Credit Rating Agencies, to strengthen their procedures to protect the integrity of the ratings process, help ensure that investors and issuers are treated fairly, and safeguard confidential material information provided;
- China will allow existing credit rating agency (CRA) joint ventures to apply to qualify for a securities-related credit rating business without a reduction in their existing percentage foreign equity stake, following entry into force of new U.S. CRA regulations, at which time registered CRAs must comply fully. CSRC will consider these applications in accordance with its prudential regulations;

- The United States reiterated its commitment to open financial markets, apply national treatment to Chinese banks and process expeditiously applications by Chinese banks to establish branches in the United States, in accordance with relevant prudential regulations and procedures, without undue delay;
- China allowed, on a pilot project basis, non-deposit taking foreign financial institutions to provide consumer finance to local retail customers in China; agrees to reduce the lockup period for the invested principal of Qualified Foreign Institutional Investors (QFII) to 3 months for insurance companies, government and monetary authorities, mutual funds, pension funds, charity funds, donations funds and open-end China funds established by QFIIs; and will allow qualified foreign companies to list on its stock exchanges through issuing shares or depository receipts in accordance with relevant prudential regulations and allow qualified foreign incorporated banks to issue subordinated RMB-denominated bonds;
- U.S. Department of Agriculture (USDA) will explore means to further cooperation on agricultural insurance with China, and will consider providing training for Chinese officials and industry representatives who seek to develop China's insurance policies in the areas of insuring crops and livestock from damages, including those caused by natural disasters.; and
- China and the United States had positive discussions on the proposed regulation on "Administrative Method of the Equity Interest in Insurance Companies" during the comment period, and in particular, on the issue of the U.S. concern that foreign insurance institutions may invest in a new or existing domestic insurance company without regard to whether that institution has already invested in the same insurance sector in China. China will consider fully comments timely submitted from all parties, and continue to consult as appropriate. China recently issued regulations which specify relevant CIRC requirements to allow insurance companies in China ("Measure for the Overseas Investment with Insurance Funds"), including foreign-invested companies, to invest a certain proportion of their assets overseas.

II. Investing in People and Product Quality and Food Safety

The United States and China had substantive discussions on how best to work together to mitigate the economic risks associated with the aging populations in both countries and to provide better social services such as health care and retirement. In addition, building on the significant progress made at the third SED meeting on product quality and food safety, the United States and China committed to further strengthen our cooperative efforts. To this end, both countries:

- agree to continue discussing China's export product quality and food safety control system and to strengthen cooperation on inspection, quarantine, and safety of designated products;
- will sign a 2008 work plan to implement the Memoranda of Agreement on the safety of drugs and medical devices between the Food and Drug Administration within the U.S. Department of Health and Human Services (HHS) and China's State Food and Drug Administration (SFDA);
- signed a joint progress statement regarding the joint Five-Year Work Plan under the Agreement on the Safety of Food and Feed between HHS and China's General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ);
- continue discussions to sign a Memoranda of Understanding between the U.S. Department of Agriculture and AQSIQ on food safety;
- signed a Memorandum of Understanding on Collaboration in Traditional Chinese Medicine; and
- commit jointly to explore cooperation in disaster preparedness, forecast and mitigation.
- agreed on the importance of improving consumer confidence in the safety of products and drugs and reached consensus that we should place U.S. Department of Health and Human Services/Food and Drug Administration personnel at the U.S. Embassy and the relevant Consulates General in China and General Administration of Quality Supervision, Inspection and Quarantine and State Food and Drug Administration personnel in the Chinese Embassy and the relevant Consulates General in the United States, and agreed to work out detailed arrangements.

III. Cooperation on Energy and the Environment

Recognizing that energy and environmental challenges represent two of the most important policy issues facing our two countries in the twenty-first century, and the importance of joint cooperation in addressing these challenges, the United States and China committed to strengthen long-term cooperation on energy and the environment. To this end, both countries:

- signed a Ten Year Energy and Environment Cooperation Framework and announced the first five goals to be addressed under the framework, established five task forces and launched action plans focused on concrete cooperation for each goal, with the aim of completing all of these action plans by SED V, and also initiated discussion on exploring the concept of EcoPartnerships by SED V;
- agreed on the critical relationship between energy security, economic growth, and environmental protection, and on the importance of exploring energy efficiencies, alternative fuels, and next generation technologies; and agree to recognize the importance of ensuring responsible and transparent energy exploration and development that minimizes the negative impact on the environment and through bilateral dialogue will give full effect to the energy security principles embraced at Aomori, Japan in the Joint Statement of the Five-Party Energy Ministers on June 7, 2008 and the Joint Statement of Energy Ministers by the G8 Plus 3 on June 8, 2008;
- agree to strengthen cooperation with the International Energy Agency (IEA) on areas of mutual interest to address energy security issues of common concern, including global energy markets, strategic oil reserve, energy diversification, energy efficiency and clean energy technology, and agree that in times of oil supply disruption, to consider voluntary participation in the joint action of IEA member countries, building on the previous commitments made at the third SED meeting and the Joint Statement of the Five-Party Energy Ministers on June 7, 2008 at Aomori, Japan;
- agree to share information and experiences on technologies and supervision methods related to waste utilization and disposal;
- agree to continue bilateral exchanges on the scope of product coverage and on the modalities for tariff reduction or as appropriate elimination, so as to facilitate achieving a comprehensive WTO agreement on environmental goods and services; and
- agree to explore establishing a mechanism for regular information exchange on timber and forest products trade and timber legality identification, to enhance legal trade in timber and forest products and global forest law enforcement and governance; agree to discuss in June the transfer to China applicable technology and equipment for forest fire prediction, warning, monitoring and suppression; agree to promote global sustainable forest management utilizing each side relative strengths.

IV. Trade and Competitiveness

The United States and China discussed the challenges of trade in the next decade and actions that should be taken to ensure that our economies remain competitive in an economic environment shaped by globalization. To this end, both sides:

- will work together with other WTO members to actively promote the conclusion of Doha Development Agenda negotiations, with the view to facilitating the development of the multilateral trading system;
- agreed to intensify cooperation on IPR protection through the IPR Working Group under the JCCT as soon as possible after the close of SED IV and prior to the 19th JCCT. Both sides agree to start the above mentioned cooperation with an introduction of China's recently published "Outline of National Intellectual Property Rights Strategy" and "Plan for IPR Protection Initiatives in 2008," and both sides may discuss issues that are not related to the claims of the current WTO dispute settlement;

- signed a Joint Declaration on Transportation Cooperation that establishes a forum for both countries to discuss challenges and future cooperation in transportation;
- further agreed to hold regular government-to-government meetings of U.S. and Chinese agencies responsible for government policies that relate to innovation, and host a public-private discussion between the fourth SED and fifth SED meetings and agree that there is mutual benefit in exploring cooperation on joint activities in research and development in science and technology;
- discussed China's market economy status and the United States recognized the continued progress China has made in its market reforms, will earnestly consider China's concerns, and will consult through the JCCT in a cooperative manner to work toward China's Market Economy Status in an expeditious manner;
- agreed to continue consultation through the JCCT and other channels on trade remedy rules and procedures;
- will continue to conduct cooperative discussions on high-tech and strategic trade issues in the U.S.-China High Technology Working Group (HTWG) under the JCCT. The United States and China are committed to facilitating civilian high-tech trade as agreed in the "Guidelines for U.S.-China High Technology and Strategic Trade";
- agreed to strengthen cooperation on Rules of Origin, Customs Trade Partnership Against Terrorism (C-TPAT), and the protection of cultural relics; and
- The United States and China recognize the significant steps both countries have taken to enhance transparency. Building upon their SED III transparency commitments, the United States and China agree to publish in advance for public comment, subject to specified exceptions, all trade and economic-related administrative regulations and departmental rules that are proposed for adoption and provide a public comment period of not less than 30 days from the date of publication. China agrees to publish such measures in the Chinese Government Legislative Information Website of the Legislative Affairs Office of the State Council, and the United States agrees to publish such measures in the U.S. Federal Register. The two sides also agreed to continue exchanges on transparency in administrative rule-making and licensing, and to invite representatives from their legislative and judicial organs to appropriate future meetings.

V. Investment

In light of the potential for a substantial increase in bilateral investment flows, the United States and China agreed to a number of steps to facilitate mutually beneficial investment between the two countries. To this end, both sides:

- agreed to launch negotiations on a bilateral investment treaty in the interest of facilitating and protecting investment and enhancing transparency and predictability for investors of both countries;
- agreed to a framework and work plan for the Investment Forum at their first meeting on June 16. The Forum will focus on practical investor concerns, such as the process of investment reviews and potential investment barriers; and
- agreed to create an Investment Promotion Initiative that features a series of investment activities in both countries that bring together interested parties.

In addition, the United States welcomes sovereign wealth fund investment, including from China. China stressed that investment decisions by its state-owned investment firms will be based solely on commercial grounds, and the United States will fully consider any written comments submitted by China on the proposed "Regulations Pertaining to Merger, Acquisitions and Takeovers by Foreign Persons," and confirms the CFIUS process ensures the consistent and fair treatment of all foreign investment without prejudice to the country of origin.

The fifth SED will be held in Beijing in December 2008.

U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE June 18, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

JOINT U.S. – CHINA FACT SHEET
U.S.-CHINA TEN YEAR ENERGY AND ENVIRONMENT COOPERATION FRAMEWORK

At the fourth meeting of the U.S.-China Strategic Economic Dialogue in Annapolis, Maryland, the United States and China signed a Ten Year Energy and Environment Cooperation Framework that sets goals and lays out concrete next steps. The two countries announced the following four steps in this cooperation:

1. Creation of the Ten Year Energy and Environment Cooperation Framework and signing of the Agreement.
2. Announced five initial goals to be addressed under the Framework.
3. Announced the establishment of five task forces to develop action plans focused on concrete cooperation for each goal, with the aim of completing all of these action plans by the next SED meeting.
4. Initiated discussions on exploring the concept of EcoPartnerships by the next SED meeting.

The Cooperation Framework has been structured to foster extensive collaboration over a ten year period to address the challenges of environmental sustainability, climate change, and energy security.

A joint steering committee to guide cooperation has been established, with Secretary of the Treasury Henry M. Paulson, Jr. serving as a co-chair for the United States, and Vice Premier Wang Qishan serving as a co-chair for China.

There are five participating cabinet agencies for the United States – the Departments of the Treasury, State, Commerce, and Energy and the Environmental Protection Agency. There are seven participating agencies for China – the National Development and Reform Commission, State Forestry Administration, National Energy Administration, and the Ministries of Finance, Environmental Protection, Science and Technology, and Foreign Affairs. Additional agencies will be added by the United States and China as necessary.

Initial Goals, Task Forces, and Additional Steps

The five initial goals that have been established are:
1. Clean, Efficient, and Secure Electricity Production and Transmission
2. Clean Water
3. Clean Air
4. Clean and Efficient Transportation
5. Conservation of Forest and Wetland Ecosystems

Task forces have been identified for each of the five initial goals. Core areas that each task force may address include: basic research and joint technological research and development; technology commercialization (including demonstration and dissemination); policy development and incentives; information sharing; and capacity building.

Highlights from the initial task force discussions are as follows:

- *Clean, Efficient, and Secure Electricity Production and Transmission*: Preliminary discussions have focused on steps both countries can take together to address electricity supply and demand challenges; and in the power generation sector, an efficient diversification of energy resources. Potential areas of collaboration include Renewable and Alternative Sources of Clean Energy, Clean Fossil Fuel, Power Grid and the Electricity Market, and Nuclear Power.

- *Clean and Efficient Transportation*: Preliminary discussions have focused on four broad areas: 1. Clean and efficient vehicle technologies; 2. Design and modality of transportation systems; 3. Clean and alternative fuels, including next generation (cellulosic) biofuels; and 4. Improvement and utilization of existing transportation infrastructure.

- *Clean Water*: Targeted initial areas of cooperation for the Clean Water action plan include water quality management; provision of safe drinking water; and prevention and control of pollution from agriculture and rural areas. Cooperative work in these areas will include design of an overall framework of U.S.-China cooperation on clean water; an evaluation and analysis of clean water policies, and assessment and promotion of transfer of clean water technologies; study programs; and performance evaluation of the study programs.

- *Clean Air*: Both countries will build upon the agreement reached at SED III to implement an SO_2 emissions trading program for China's power sector, through integration of this program into China's regulatory system.

- *Conservation of Forest and Wetland Ecosystems*: The United States and China will focus on two major areas: 1. Enhanced cooperation on wetlands conservation and management; and 2. Enhanced cooperation on the establishment and management of protected areas, including wildlife conservation.

The U.S. and China agree to explore by the next SED meeting the concept of EcoPartnerships as a potential vehicle for implementing and demonstrating cooperative initiatives of the U.S.-China Ten Year Energy and Environment Cooperation Framework, whereby both countries would work together to facilitate voluntary, cooperative partnerships in the United States and China.

The task forces will continue to meet over the coming months and provide additional details of their work to both the United States and Chinese governments by the next SED meeting.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 19, 2008
HP-1040

Remarks by Secretary Henry M. Paulson, Jr. on Economy and Markets before Women in Housing and Finance

Washington, DC-- Good afternoon. Thank you, Mary Martha. And thanks to Women in Housing and Finance for almost thirty years of actively promoting women in the finance and housing professions. Not surprisingly, I think those who work in finance and markets serve an integral role in our economy and congratulate all of you who have chosen to pursue careers in these challenging and dynamic fields.

U.S. Economy

As you know, the U.S. economy is going through a rough period – after six straight years of almost 3 percent average annual growth, our growth rate slowed significantly late last year. We are facing a trio of headwinds – a housing correction, capital markets turmoil and high energy and commodity prices.

We acted quickly in January and February to enact an economic stimulus package that is injecting $150 billion into our economy now when it's most needed. To date, over 76 million payments totaling almost $64 billion have been sent. These payments are helping families weather this period of slow growth and absorb unexpectedly higher food and gas prices. These stimulus payments are already having an impact as retailers are reporting increased sales as people receive and spend their checks. While the stimulus is making our economy stronger than it otherwise would have been, the headwind of high energy prices has the potential to lengthen the economic slowdown.

The housing correction is proceeding. We have implemented a series of public and private initiatives to help financially-able homeowners stay in their homes and to keep mortgage financing available. Importantly, Congress has made great progress on reform of the supervision of the GSEs, and needs to complete that work. Fannie Mae and Freddie Mac are the two largest sources of mortgage finance, with a combined 70 percent share of the mortgage market last quarter. A strengthened regulator for Fannie Mae and Freddie Mac will increase investor confidence in these enterprises and will be a substantial tool to ease the housing downturn and increase the availability of affordable mortgages for Americans who want to buy a new home or refinance their current one.

U.S. Capital Markets

Certain sectors of the capital markets are still under stress, but we continue to make progress. As I have said before, we expect to be working through this for some time as de-leveraging and re-pricing of risk continue.

Revaluation of assets and overall market conditions are creating a challenging earnings environment and pressure for some financial institutions. While stressful in the near-term, this re-pricing of risk is necessary and will set the stage for greater confidence and market improvements.

For some time I have encouraged financial institutions to raise capital. Even in this difficult environment, U.S. financial institutions have begun the process by raising billions of dollars in new capital. I expect this process to continue and broaden, which is essential to the ability of these institutions to continue to support the broader economy.

I believe market conditions will continue to improve, but not in a straight line. Our financial institutions must continue to improve risk management and disclosure. I am confident that actions being taken by our financial institutions and regulators will make our capital markets stronger and contribute to sustainable future economic growth. Overall, I believe that the United States is on the right path to resolving market disruptions and building a stronger financial system. Increasingly, our capital markets will reflect the underlying economy. And in that regard, a significant downside risk is housing, which we continue to monitor.

Policy Issues Arising from Market Turmoil

As we work through the immediate market turmoil, the President's Working Group on Financial Markets, the PWG, has also reviewed its causes and, in March, made recommendations to address them.

Our review found that the turmoil was fueled by an abundant supply of easy credit, a breakdown in mortgage and other credit lending standards, increasingly complex and opaque financial instruments and structures, excessive leverage in our financial system, a lack of independent assessment by investors and credit ratings agency issues.

The PWG presented specific near-term steps to address underlying weaknesses, steps that should be implemented by regulators, investors, financial institutions and credit ratings agencies. Among these, we identified improvements for every step of the mortgage originate-to-distribute model, including stronger oversight of mortgage origination, national licensing standards for mortgage brokers, more disclosure from securitizers and ratings agencies, and improved due diligence by investors.

We also outlined specific steps that credit rating agencies should take to provide information that investors need to make more fully-informed decisions about risk. This will require reforming structured credit product rating processes and implementing other changes. The SEC has already begun by proposing new rules on disclosure, due diligence and conflict of interest. Regulators must also review how rules and guidance encourage over-reliance on the use of ratings.

In recent years, credit default swaps and over-the-counter (OTC) derivatives have become integral for hedging credit, default and price risk. Due to innovation and demand, we have seen tremendous expansion in the scale, diversity and impact of these instruments and markets. As price volatility has surged, so have trading volumes; market infrastructure needs to more sufficiently evolve to support this expansion. In response to this pressing need, we recommended the establishment of a functional, well-designed industry cooperative that can meet the needs of the OTC derivatives markets in the years ahead.

We are working with the PWG member agencies – the Federal Reserve, the SEC and the CFTC – and the Federal Reserve Bank of New York and the OCC, to monitor the efforts of several private sector committees and others to implement these and other PWG recommendations, and will report our progress later this year.

Balancing Market Discipline and Market Oversight

In the last few decades, we have seen an evolution in mortgage finance that reflects a broader evolution in financial services. Commercial banks used to be the primary channel for U.S. financial intermediation. That is less true now, as non-bank financial institutions play a significantly more important role.

Shortly after I came to Washington, I pointed out that our financial regulatory structure has not kept pace with this market evolution. We then began work to outline a new financial regulatory structure that is better suited to protect investors, protect the stability of the financial system, and support the innovation and risk-taking that fuel our economy. We released our report, the Blueprint for a Modernized Financial Regulatory Structure, in March of this year.

Our work on an ideal regulatory structure began 18 months ago, during a period of calm markets, and many viewed it as an academic exercise. The market turmoil last summer, and particularly the failure of Bear Stearns in March, has underscored the need for this overhaul.

The headline question when considering the ideal regulatory structure is how to strike the right balance between two principles: market discipline and market oversight. These are fundamental principles vital to a healthy financial sector and a healthy economy, and must be continually rebalanced if our financial system is to remain strong.

Stresses, losses, fragility and liquidity conditions in certain parts of the market in the last several quarters have revealed how crucial market stability is to our economy. Stable, deep and liquid markets translate into lower cost financing for everything from mortgages to student loans to corporate mergers.

In our Blueprint, we suggested an optimal regulatory structure for the long term in which the Federal Reserve would take on a different but important role as market stability regulator focused exclusively on the market as a whole. We raised for debate whether it was optimal to have a regulator that serves as the system's lender of last resort and also focuses on the safety and soundness of individual institutions. We questioned whether these sometimes conflicting responsibilities should be separated in order to better channel market discipline. We also noted that where the system was at risk additional regulatory authority to complement market discipline would be needed.

Our Blueprint also emphasized that regulation must be strongest where market discipline is most compromised, and the presence of an explicit government backstop significantly weakens market discipline. Therefore, the nature and degree of government support is an important factor in determining the appropriate level of regulation.

Of course, regulation alone cannot fully protect the financial system. Market discipline must also constrain risk-taking. The collapse of Bear Stearns, and the government's response, has put these issues squarely on the plate of financial regulatory policymakers. Decisions on the immediate issues will inform future decisions about how to modernize and improve our regulatory structure and what we should expect from our central bank.

In response to the Bear Stearns collapse, the Federal Reserve acted to address market liquidity issues by giving primary dealers temporary access to the discount window. The Fed took this action to protect the system – not a particular institution. And we strongly supported this important step. But the obvious follow-up question to this extraordinary action is what role should the Fed play now that it is a lender to these institutions? We are working closely with the Fed and the SEC as they answer this. The parties are working to formalize this role in a Memorandum of Understanding, an MOU. Some issues are easy to resolve – the Fed must have information and access so that it can assess its potential borrowers and counterparties. A more difficult issue is how this newly formalized relationship evolves when these temporary facilities eventually close and how, depending on its scope, the MOU will be perceived by the marketplace. In this context, we should also consider how the SEC and the Fed should coordinate regarding capital and liquidity requirements for these firms.

As the Fed and the SEC work through the immediate issues associated with the primary dealers' current access to the Fed's facilities, we must also begin in earnest the serious work it will take to transform our current regulatory structure into something that meets the objectives we laid out in the Blueprint. This will not be done easily or quickly, nor will it be done in a single step. But we must begin to modernize our financial regulatory structure to reflect the breadth of financial institutions that finance the U.S. and global economy.

Perhaps the most difficult question is how to create an entity that performs the function of the Blueprint's market stability regulator. In reality, the Fed is already expected to play this role when the system is threatened. Whether it was Long Term Capital Management in 1998 or Bear Stearns this year, our nation has come to expect the Federal Reserve to step in to avert events that pose unacceptable systemic risk. But, as we noted in our Blueprint, the Fed has neither the clear statutory authority nor the mandate to anticipate and deal with risks across our entire financial system.

Much of the Fed's current authority as lender of last resort was granted during the Great Depression. In light of the changes and developments in today's financial markets, we should take a hard look at whether the Congress has given the Fed the appropriate authority and direction to execute this lender of last resort responsibility when the system is threatened.

We have now learned that a wider range of institutions can potentially threaten the stability of the financial system. It seems clear that in the future the central bank might need to make liquidity available to a broader range of financial institutions under certain extraordinary circumstances. However, at the same time, the circumstances under which that liquidity is provided must be limited and focused on systemic risk that can impact the overall economy. We must examine this authority and the processes and procedures to implement it and calibrate them appropriately. It is imperative that market participants not have the expectations that lending from the Fed is readily available.

To act as market stability regulator, the Fed would need appropriate authority to respond to and proactively address systemic risks – whether it be a risk posed by a commercial bank, an investment bank, a hedge fund, or another type of financial institution. To perform this function, it is vital that the Fed have information and access across all types of financial institutions. But information gathering alone is not enough. We must also define the scope of the Fed's role in identifying and constraining risk-taking that can detrimentally affect the financial system. This likely requires authority to intervene to prevent the build up of conditions that create significant risk to the stability of the financial system. Ultimately, we should get to the place where the market stability regulator's responsibilities come with broad-based authority applicable to a wide range of institutions - with a focus on the system as a whole. Defining the scope of the Fed's new authorities and responsibilities is not a simple task, and the definition must balance two very important priorities – providing additional stability to the financial system on the one hand, while limiting moral hazard on the other.

The greater the belief in a safety net, the more risk market participants are willing to take and the greater the risk to the taxpayer. A stable system requires that risk-taking bring both reward and loss. Market discipline plays an enormous role in curtailing excessive risk-taking, a role that neither can nor should be completely executed by regulators.

Of course, the mere creation of a market stability regulator can increase moral hazard and decrease market discipline. The expectation that a regulator will intervene to protect the system must be limited to the greatest extent possible. In other words, we must limit the perception that some institutions are either too big or too interconnected to fail. If we are to do that credibly, we must address the reality that some are. To do that, we must strengthen market infrastructure and operating practices in the OTC derivatives market and the tri-party repo system and clarify the resolution, or wind down, procedures for non-depository institutions. Creating a more stable environment will mitigate the likelihood that a failing institution can spur a systemic event.

During the past year, despite dislocations in our financial markets, our market infrastructure has proven quite resilient. Payments were made, margining at clearing corporations continued, and exchanges handled massive surges in volume around the world. Still, there are two areas of market infrastructure where market participants and regulators must focus attention – OTC derivatives and secured lending, including tri-party repos. These activities play important roles and bring many benefits, but have outgrown an infrastructure that needs to be strengthened. And this contributed to the concern that an institution could be too big or too interconnected to fail. And this, together with the implications concerning broader market behavior and market confidence, factored prominently into the Fed's decisions surrounding the failure of Bear Stearns.

Given the massive scale of the OTC derivatives market, we need to enhance trade processing with more automation, clear the backlog and create utilities and protocols that will make the process more efficient. I am pleased that a number of the institutions that account for a significant percentage of OTC derivatives trading are working to do this, by recently forming a cooperative and working with the New York Fed, under Tim Geithner's leadership, to create the necessary protocols to bring more transparency and efficiency and reduce counterparty credit risk. It is imperative that this cooperative bring standardization not only to dealer transactions but to the broader community of counterparties, including hedge funds. For the tri-party repo market, we must address risks associated with a potential counterparty failure and the risk associated with the potential disruption of a clearing bank.

Despite long-standing efforts to address the treatment of derivatives and other financial contracts in the case of a failed financial institution, there still seems to be uncertainty surrounding the process by which a large complex institution is wound down and what impact that would have on the overall financial system. U.S. bankruptcy law was updated significantly in 2005 to address many issues associated with OTC derivatives contracts. We should evaluate whether the resolution, or winding down, process for large complex institutions should be modified to help mitigate disruption to the financial system and improve market discipline. This requires addressing a number of difficult questions, including whether we need to assign a particular regulatory agency to oversee resolutions and how any potential intervention is justified and explained.

Finally, we must review the emergency authorities of the Federal Reserve, Treasury and other financial regulators, and update them to reflect the current financial system. To be effective in the future, our regulatory system needs an overhaul.

Clearly, these are difficult questions. They will not be resolved quickly. Nor will they be resolved in one single reform effort. The solutions will evolve, as regulators and market participants consider the issues. Recent events have revealed the disconnect between the ever-evolving financial system and our outdated regulatory framework. Dedicated and innovative regulators have found ways to address current issues within the bounds of authorities created when the financial system was markedly different.

This work is absolutely necessary, and must be engaged as we address the narrower, immediate issues that are today in the public debate. Beginning to address these fundamental issues is critical to finding the right balance between discipline and oversight that will strengthen our financial system.

Conclusion

I will sum up my main points today. When we published the Blueprint in March, I made clear I believed we were laying out a long-term vision that would take time to consider and implement. Since then, the Bear Stearns episode and market turmoil more generally have placed in stark relief the outdated nature of our financial regulatory system. We are working with the Fed and the SEC on the immediate issues raised by the Fed's provision of liquidity to the primary dealers. But we must dramatically expand our attention to the fundamental needs of our system, and move much more quickly to update our regulatory structure – always keeping in mind that there must be a balance between market discipline and market oversight.

I see three clear lessons from the experience of recent months:

> First, we should quickly consider how to most appropriately give the Federal Reserve the authority to access necessary information from complex financial institutions and the authority to act to mitigate systemic risk in advance of a crisis.
>
> Second, we need to take several critical steps to make sure that market discipline continues to play the vital role it needs to play to keep our financial system in balance, as we work to ensure the system's stability. To reduce the perception and the likelihood that a complex financial institution is too interconnected to fail, steps are needed to strengthen our practices and financial infrastructure in the OTC derivatives market and in the tri-party repo system, and to provide greater certainty around the mechanics of winding down a failed institution that is not a federally insured depository institution.
>
> Third, we must re-examine the emergency authorities of the Federal Reserve, Treasury and other financial regulators to ensure they are adequate to the roles they are expected to play in today's modern and multi-faceted financial system.

As we address each of these lessons, we must be guided by the desire to balance market oversight with market discipline. The stability of our financial system is essential, and market discipline is also essential to the preservation of a healthy financial system. I know from first hand experience that normal or even presumed access to a government backstop has the potential to change behavior within financial institutions and with their creditors. It will compromise market discipline and lower risk premiums, which ultimately puts the system at risk.

And for the sake of the system and its impact on the overall economy, we need businesses to manage their affairs without the expectation or presumption that the government will be there if they get into trouble. We need to encourage this by our words and our deeds. And this should be an important consideration as we debate how best to give our regulatory structure a much-needed and long-overdue overhaul to meet the needs of our financial markets.

We know that the combination of high energy and commodity prices, market stress and a housing correction makes this a tough time for America's families and workers. We also know that the U.S. economy's performance for the past 50 years has been second to none, and that we have undergone difficult economic periods in the past. I understand that doesn't make the day-to-day much easier right now. But I am confident, because our economy is resilient, deep and competitive. And I want Americans to be confident as well. I travel overseas quite often, and am constantly reminded that our long term economic fundamentals compare favorably to any advanced economy in the world. One thing is clear – whatever our current difficulties, I wouldn't bet against the U.S. worker, the U.S. economy, or the U.S. financial system. Thank you.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 19, 2008
HP-1041

US Treasury Awards $8.2 Million to Organizations Serving Economically Distressed Native American Communities

Scottsdale, Arizona – Director Donna J. Gambrell of the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund visited Scottsdale, Arizona today to announce awards totaling $8,224,587 to 29 organizations serving Native American or Alaskan Native communities located in 15 states. The awards were made through the CDFI Fund's Native American CDFI Assistance (NACA) Program.

"The 29 Native organizations we recognize today are strong institutions that bring leadership and stability to their communities by providing financial education, building assets, and expanding financial opportunity," said CDFI Fund Director Gambrell. "We are very pleased to know that the awards made today will enable further community development efforts and increase the availability of financial services and products in Native American and Alaskan Native communities."

The event was hosted by the Salt River Financial Services Institution which is supported by the Talking Stick Golf Club, an enterprise of the Salt-River Pima Maricopa Indian Community. Treasury held the national award announcement there to highlight the seven Arizona-based award recipients: Arizona Tribal CDFI (Phoenix); Bik'eh Hozho Community Development Corporation (Tuba City); CDFI of the Tohono O'Odham Nation (Sells); Hopi Credit Association (Keams Canyon); Pascua Yaqui Tribe (Tucson); Salt River Financial Services Institution (Scottsdale); Yavapai Apache Nation Community Development & Lending Corporation (Camp Verde) – all of which are leaders serving the community development needs of their Native communities. The awardees were selected after a competitive review of 45 applications received by the CDFI Fund from organizations across the nation that requested over $17 million in funding under the 2008 round of the NACA Program.

Since 2002, the CDFI Fund has made 177 awards totaling $31.3 million through its various funding programs aimed at benefiting Native communities. In five short years, the number of Native CDFIs has grown from 14 to 47 – a 335 percent increase. In addition, the CDFI Fund has awarded over $7.5 million to organizations to provide capacity-building and financial services training programs that are focused on Native Communities.

Background

The CDFI Fund invests in and builds the capacity of community-based, private, for-profit and non-profit financial institutions with a primary mission of community development in economically distressed communities. These institutions certified by the CDFI Fund are able to respond to gaps in local markets that traditional financial institutions are not adequately serving. CDFIs provide critically needed capital, credit and other financial products in addition to technical assistance to community residents and businesses, service providers, and developers working to meet community needs.

In 2004, the CDFI Fund introduced the NACA Program, which was specifically designed to encourage the creation and strengthening of CDFIs that primarily serve Native American, Alaska Native, and Native Hawaiian communities. Organizations funded serve a wide range of Native communities, and reflect a diversity of institutions in various stages of development – from organizations in the early planning stages of creating a CDFI, to tribal entities working to certify an existing lending program, to established CDFIs in need of further capacity building assistance. Two types of funding are available: financial assistance awards, available only to certified CDFIs, are made in the form of loans, grants, deposits, or equity investments to support their financing activities. Historically, FA awards have been primarily used by awardees as financing capital; a FA award requires the awardee to match the CDFI Fund's award dollar-for-dollar with funds from non-Federal sources; and technical assistance grants used to acquire products or services, including technology, staff training, consulting services to acquire needed skills or services, or to support general capacity-building activities..

The CDFI Fund's vision is an America in which all people have adequate access to affordable capital, credit and financial services.

For more information about these awards, or about the CDFI Fund and its programs, please visit the Fund's website at: http://www.cdfifund.gov .

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 19, 2008
HP-1042

Treasury Lifts Sanctions on Chinese Firm

Washington - The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) today removed the China Great Wall Industry Corporation (CGWIC), and its U.S. subsidiary, G.W. Aerospace, from the list of Specially Designated Nationals. CGWIC, a Chinese entity, was designated on June 13, 2006, pursuant to Executive Order 13382, for providing material support to Iran's missile program. G.W. Aerospace, which is located in Torrance, California, was designated for being owned or controlled by CGWIC.

"Removing China Great Wall Industry Corporation from our sanctions list marks a great success for our counter-proliferation sanctions program," said OFAC Director Adam J. Szubin. "A company that once supported Iran's missile program has implemented a rigorous and thorough compliance program to prevent future dealings with Iran."

OFAC has determined that CGWIC and its U.S. subsidiary no longer meet the criteria for designation pursuant to E.O. 13382.

E.O. 13382, signed by the President on June 28, 2005, authorizes the U.S. Treasury to freeze the assets of proliferators of weapons of mass destruction and their supporters and to isolate them from the U.S. financial and commercial systems. Designations under E.O. 13382 prohibit all transactions between the designees and any U.S. person, and freeze any assets the designees may have under U.S. jurisdiction.

Since the President issued E.O. 13382 and identified eight entities in the Annex to the Order, a total of 49 entities and 12 individuals have been designated as proliferators of WMD or for supporting WMD proliferators. Specifically, the Treasury Department has designated:

- 34 entities and 11 individuals tied to Iranian proliferation activity;
- Nine entities and one individual tied to North Korean proliferation activity;
- Three entities tied to Syrian proliferation activity.

Additionally, the State Department has designated three Iranian entities under E.O. 13382.

Identifying information on entities being removed:

CHINA GREAT WALL INDUSTRY CORPORATION (a.k.a. CGWIC; a.k.a. ZHONGGUO CHANGCHENG GONGYE ZONGGONGSI), No. 30 Haidian Nanlu, Beijing, China; Moscow, Russia; and all other locations worldwide

G.W. AEROSPACE, INC. (a.k.a. GREAT WALL AEROSPACE, INC.), 21515 Hawthorne Blvd., Suite 670, Torrance, CA 90503; California Corporate Number C1458237 (United States)

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 19, 2008
HP-1043

Treasury Designates Al Haramain Islamic Foundation

Washington - The U.S. Department of the Treasury today designated the Al Haramain Islamic Foundation (AHF) for having provided financial and material support to al Qaida, as well as a wide range of designated terrorists and terrorist organizations.

Today's action targets the entirety of the AHF organization, including its headquarters in Saudi Arabia. Evidence demonstrates that the AHF organization was involved in providing financial and logistical support to the al Qaida network and other terrorist organizations designated by the United States and the United Nations.

Between 2002-2004, the United States designated thirteen AHF branch offices operating in Afghanistan, Albania, Bangladesh, Bosnia & Herzegovina, Comoros Islands, Ethiopia, Indonesia, Kenya, Netherlands, Pakistan, Somalia, Tanzania, and the United States.

Several of these branch offices have also been designated by the United Nations 1267 Committee based on evidence of their support for al Qaida. The United States and United Nations also designated in 2004 the former leader of AHF, Aqeel Abdelaziz Al-Aqil.

The Kingdom of Saudi Arabia joined the United States in designating several branch offices of AHF and, due to actions by Saudi authorities, AHF has largely been precluded from operating in its own name.

Despite these efforts, AHF leadership has attempted to reconstitute the operations of the organization, and parts of the organization have continued to operate.

Al Haramain Foundation was designated today under Executive Order 13224, which targets terrorists and those providing financial, technological, or material support to terrorists or acts of terrorism. Assets held by any office of the AHF organization under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with AHF.

For more information on the actions taken against Al Haramain Foundation, please visit the following link: http://www.treasury.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml#ahbranches.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 19, 2008
HP-1044

U.S. Treasury Assistant Secretary to Deliver Remarks in London on Financial Markets

U.S. Treasury Assistant Secretary Anthony W. Ryan will deliver remarks on progress in financial markets on Tuesday, June 24 in London. Assistant Secretary Ryan also will provide and update on the implementation of the U.S. President's Working Group on Financial Markets' policy statement released on March 13.

The following event is open to credentialed media:

Who
U. S. Treasury Assistant Secretary Anthony W. Ryan
What
Remarks at Euromoney's Global Borrowers Investors Forum 2008
When
Tuesday,
June 24 4:30 p.m. (Local Time)
Where
The Hilton Park Lane, London
22 Park Lane
London, W1K 1BE, United Kingdom

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 19, 2008
HP-1045

Paulson to Attend Meeting of Finance Officials in Mexico

Washington, DC-- Treasury Secretary Henry M. Paulson, Jr. will attend a day of meetings hosted by Mexican Finance Minister Agustin Carstens on Tuesday to discuss regional finance and economic issues.

Paulson will join finance officials from Latin America, the Caribbean and Canada as well as heads of the International Monetary Fund, World Bank and Inter-American Development Bank to discuss a range of economic issues and areas of regional cooperation. The meetings will cover a global and regional economic outlook, the role of international financial institutions in the region and areas of strategic cooperation.

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June 20, 2008
HP-1046

Week 8 Wrap-Up:
Treasury Sent 9.071 Million Stimulus Payments This Week

This week the Treasury Department sent out 9.071 million economic stimulus payments to American households totaling $6.919 billion. So far, Treasury has sent out 85.174 million total economic stimulus payments totaling $70.782 billion.

Cumulative Total

Total Number of Payments: 85.174 million
Total Amount of Payments: $70.782 billion

Week Eight (June 16-20)

Total Number of Payments: 9.071 million
Total Amount of Payments: $6.919 billion

Week Seven (June 9-13)

Total Number of Payments: 9.526 million
Total Amount of Payments: $7.032 billion

Week Six (June 2-6)

Total Number of Payments: 9.143 million
Total Amount of Payments: $6.789 billion

Week Five (May 26-30)

Total Number of Payments: 5.757 million
Total Amount of Payments: $4.320 billion

Week Four (May 19-23)

Total Number of Payments: 6.211 million
Total Amount of Payments: $4.927 billion

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28 and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 18, 2008
HP-1048

Transcript of U.S. Delegation Press Conference at the Fourth Meeting of the U.S. China Strategic Economic Dialogue

SECRETARY PAULSON: Before taking your questions, let me just thank my cabinet colleagues again. This is always a busy time of year, and it seems busier than normal right now, and they've put a lot of work in getting ready for this, and spent a day-and-a-half in these meetings, made major contributions, and I'm very grateful for their involvement. And I think it pays real dividends because one of the real advantages of this dialogue is when, rather than making the case on currency to the central bank governor, or making the case on the environment to the environmental minister, the fact that we make the case on a broad range of issues to the whole economic leadership, and when that is siloed it is huge. And these discussions go better and better every time.

Well, let me go right now to your questions.

Yes, in the front.

Q: Thank you. I just – before the SED, Treasury Department revised a regulation of CFIUS. The proposed CFIUS will give – the proposed regulation will give CFIUS more room to interpret the regulation of foreign investors. So China is – you know, is a little bit concerned about, you know, the protectionists, you know, in the United States as United States is asking more openness of, you know, Chinese financial market. What is your comment on that?

SECRETARY PAULSON: Well, I would say this: first of all, we have traditionally had a market as open as any market in the world. CFIUS is an exception. Our market is open and the exception is CFIUS reviews investments where there is a national security concern, to protect the national security, and this national security control.

In China, you need pre-approval, and so it's a different system. We're in different stages of development. And there is no doubt that we would have more investment from China, but Chinese investors are – no investor wants to come in and be embarrassed, and to be turned away. So we have – the CFIUS – new CFIUS regulations we have follow the law. I'm very pleased with the law, and I think it really clarifies things in a very positive way.

We've gone out very transparently for comment, and are taking comment from everyone before finalizing the regulations. So we had a – I think we had a very good meeting on investment. We – all of us emphasized how that the highest vote of confidence anybody can pay to our economy is to make a direct investment. We benefit from it. And so we had a good conversation about investment, and we talked about – sovereign wealth funds, and again explained we're open to the investment – very open. And we talked about the best practices, and why we thought that was a great effort by the IMF, which would be important to keeping markets open in various places around that world that maybe aren't quite as comfortable with investment as we are, and so in any event we had a good discussion on investment.

Yes?

Q: My question is everybody is very – pay a lot of attention to the election and once, you know, U.S. is probably going to lead by a government who is a Democrat president. It's possible. But if so, do you think he is going to still continue the SED, and will you personally lobby to continue?

SECRETARY PAULSON: Well, I would say this: First of all, I'm not going to speculate on any outcome – on the election. I'm just simply saying what I say to my Chinese counterparts: Americans are results-oriented people, and I think that we understand how important this economic relationship between our two countries is. And if anything we try to do – and most of the major economic issues around the country and many other issues around the world are easier done if you have bilateral cooperation with China, multilateral support. We have a strong interest in China's economy doing well; they have a strong interest in our economy doing well, and if this relationship – this SED – produces tangible results that we wouldn't have otherwise achieved, then I am an optimist that it will continue. And again, I also say to people that imitation is the highest form of flattery, and I see many other nations wanting to emulate the SED that we have with China.

SECRETARY PAULSON: Yes, let me go to that gentleman.

Q: Thanks. We've asked China several times to lift its energy price controls. China's officials yesterday in Annapolis said they would not do that, or least indicated it was nothing in the foreseeable future.

Given the state of energy markets today and how much energy China consumes, how much of an impact is that having now or likely to have in the near future? In other words, is it affecting U.S. prices?

SECRETARY PAULSON: Yeah, I would say this: First of all, in terms of the energy markets, there is no doubt in my mind that China understands the importance of markets, and they are working toward markets where there are not subsidies or administrative controls. They understand the importance of transparency, and they are working – and we have good discussions about that.

So where there are differences, they are differences about the pace of change. And it is – just as we have significant economic and political issues in this country when the price of gasoline goes up that we even have – well, anyway, I think it would be difficult for them, and we understand it's difficult for them to do that right now, and we're encouraging them to make progress.

Now in terms of the impact on global oil prices, there are a lot of considerations. But what I would say to you is that the big driver is supply and demand. And global production capacity has been relatively flat for ten years and demand has been increasing. And I think that is the predominant factor in oil prices.

Yes?

Q: Thank you, Mr. Secretary. Circumstances have changed a lot since SED IV. China has appreciated its currency more than 20 percent so far. And – (inaudible) – has been exposed in U.S. financial system, such as the subprime mortgage crisis. My question is how have these changed circumstances affected the dynamics of SED IV? For example, did the Chinese challenge the U.S. system might not be the best model? Thank you.

SECRETARY PAULSON: Quite clear on that. First of all, in terms of currency, we expressed an understanding and appreciation for the accelerated pace of appreciation of the renminbi. And we clearly see a continuing need to continue to make progress in currency flexibility. But we understand what has been accomplished, number one.

Number two, with regard to currency, I've never heard the Chinese move from their position that they need a currency that is more flexible over time and that they're working toward a currency that is market-determined, because they know that's in their best interest. They have a market-driven – want to get to a totally market-driven economy. They're going to be able to manage their economy much more effectively if they had a market-driven currency, be better at fighting inflation. Monetary policy would be more effective. And so, they've never backed away from that. The discussion has been about the rate and pace of change.

Now, with regard to the subprime crisis and the turmoil that's gone on in our markets, they have clearly said they'd look to us and to a number of other European countries – but predominantly to the U.S. – as a model, that we were the teachers.

And now they see the teachers aren't perfect. And so, they want to – we had a lot of discussion. They want to learn from our mistakes and we're going to talk much more about some of the things we're encountering and some of the challenges we have and the way in which they're dealing with them. But again, they haven't at all moved away from their need to develop their capital markets more fully and to open up.

And it was encouraging to me that the progress was reflected in a whole series of steps that they informed us about. They talked about non-deposit taking financial institutions now being able to make consumer loans. They talked about insurance companies – I think it would be easier for them to invest part of their portfolio overseas. They have gone forward in expanding the scope now of their first brokerage, investment banking joint venture in China. They are going to make it possible now for foreign firms to issue ADRs in China, so raise equity in China. And so, they're going to make it easier for foreign banks who want to raise capital to issue subordinated debt denominated in RMBs. So again, I think it's important to see that they're taking a long-term approach and continuing to make progress there.

Yes, in the back, and then I'll –

Q: I wanted to know if you consider the launch of the BIT talks a big personal achievement for you and for the Bush administration.

SECRETARY PAULSON: I'm sorry. I didn't hear the –

Q: Would you consider the launch of the bilateral investment treaty talks a big achievement for you personally and for the Bush administration? And how do you expect the Congress to greet this?

SECRETARY PAULSON: Well, let me say, I don't think the launch is a big achievement. The launch is an important step to take because you can't achieve success on something unless you launch it. And so, if we successfully complete a bilateral investment treaty, it will be a big achievement whenever that is completed.

And we're going to begin negotiations and it's important because again here we're dealing with historically – we have a lot of U.S investment in China. And China had been in an earlier stage of their development. Now they're getting to the point where they have more companies of the size and stature and financial resources – they're going to want to invest outside of their country. And so, each of us have an interest in providing more protection for investors and sending a strong signal about the importance of open investment. And so, we will – we are going to work hard to negotiate a high-quality U.S. model BIT. And congratulate us when we successfully do that. Yes?

Q: Thank you, Mr. Paulson. Yesterday, the Chinese central bank governor expressed concern over the weakening dollar. He said that this was driving up the price of commodities, including oil, as well as inflation. And basically –

SECRETARY PAULSON: He said what was driving up oil inflation?

Q: The weakening dollar has been driving up the price of commodities including oil and inflation in China, and also imposing some kind of prejudice on the renminbi itself.

SECRETARY PAULSON: Well, I would say this. I addressed that and there is no pushback there, as there is any other place when I address it, because the facts speak for themselves. If you go back to February of 2002, the dollar has depreciated 24 or 25 percent and the price of oil has gone up over 500 percent. And it's gone up dramatically in every currency. And when you look at what's happened to food prices, it's a similar story. And I think everyone that looks at this seriously knows that there is one fundamental cause and that is we need more sources of energy, alternative sources of energy. And we need more production capacity in oil.

And I'll take one more question. Yes, the gentleman there. Okay, I'll take two more. I saw you, so you'll be next in the line.

Q: Would you elaborate on the concept of so-called ecopartnerships within the context of the new 10-year agreement?

SECRETARY PAULSON: Well, what we've done here with this is we've recognized that we're not going to get to the kind of success we need to have unless we set some very bold long-term objectives and then try various approaches involving different blocs of society. Now, the Chinese have had great success when they view that in terms of their economic zones during their development. And you remember Shenzhen and what they accomplished there.

And so, I think in China, there is a concept of something along the lines of green zones. And we've seen this in other parts of the world. When I was in Abu Dhabi, I was very impressed looking at a project for a totally green city that they were putting together. But as they talk with people in the U.S., that's obviously a different approach. We have a different system. But there are interchanges right now between Chinese and various different regional interchanges. The Chinese, when they go to Chicago, they say Mayor Daley's rooftop gardens. There's just a variety of ideas there. And so, this is again something to energize societies and to be able to communicate, share ideas. And it will take different forms in different countries.

Q: Thank you very much. Recently I've seen some reports saying that Chinese officials have been more aggressive in expressing their dissatisfaction over the United States on some issues like the weakening of U.S. dollars that were just mentioned. So did you view such kind of pressure during this U.S. SED session? And what are the issues that both sides most disagree with, if there is any?

SECRETARY PAULSON: I read that account. And I certainly, for someone – and I think none of our colleagues; it was quite the reverse. And as you got to know each other better, rather than making speeches and talking past each other, there's just a serious understanding of what the issues are, that two different systems – how best to address them? And I would say this: We have encouraged China to play a bigger role in the global economy and multilateral organizations, to participate in anything, more proactively in the Doha Round to all kinds of other forums. And I've read some of the statements but I don't see why Chinese officials can't say something about the U.S. dollar weakness; everybody else seems to say it around the world. (Laughter.) And I always make the same point that we have – every economy has got some ups and downs. We're going through a tougher period right now. But we're doing, I think, the right things.

And when we have an issue in the U.S., we tend to move through it pretty quickly because we shine a light on it; we move quickly to clean it up. And I will tell you, I look at the underlying strength of our economy and the fundamentals longer term, and I don't think we take a back seat to any other industrial nation. And I think that's going to be reflected in our currency value.

And so, but I encourage the Chinese to be frank and speak out. We're frank. And I view it as a positive sign.

Thank you all very much.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

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June 20, 2008
HP-1049

IMF Concludes Article IV Consultation with the United States

Washington, DC--The Treasury Department released today the concluding statement by the staff of the International Monetary Fund following this year's Article IV Consultation with the United States. This statement represents IMF staff's independent judgment and assessment of U.S. economic performance and policies.

Release of this statement is consistent with the United States' longstanding, strong support for enhanced transparency of the IMF. The United States also plans to release the IMF staff report and Public Information Notice on the U.S. Article IV review following the Executive Board's discussion of the mission later this summer.

REPORTS

- IMF 2008 Article IV Consultation - Statement of the Fund Mission

INTERNATIONAL MONETARY FUND

2008 Article IV Consultation with the United States of America

Concluding Statement of the IMF Mission

(June 19, 2008)

BACKDROP

1. **The slowdown in activity in the United States has been less than feared, and recovery should begin next year as important headwinds are overcome.** Considering the severity of the shocks that have hit, the economy has held up well so far, with substantial monetary and fiscal stimulus, buoyant net exports, and healthy corporate balance sheets all providing welcome support. However, their effect is being blunted by growing strains on household and bank finances, and now also by higher commodity prices. These strains, which have yet to fully feed through to domestic demand and activity, will take time to work out. As such, we project that real GDP (Q4/Q4) will be roughly flat in 2008, and recover gradually in 2009 to around 2 percent. Although inflation expectations have ticked up on surging commodity prices, we expect that price pressures will be contained as commodity prices peak and economic slack rises.

2. **The unusual nature of the ongoing crisis in the financial and housing sectors leaves the outlook highly uncertain.** A more rapid recovery is clearly possible, given the substantial policy stimulus and proactive response of financial markets to repair balance sheets. However, the economy is facing historically unprecedented shocks, financial conditions currently presage further tightening, and there is the worrisome possibility that weakening activity will feed back into further bank losses, generating a longer slowdown.

3. **Against this uncertain background, the main policy challenges are:**

- to provide measured support to economic activity while keeping inflation expectations anchored;
- to reform financial regulation and supervision to improve liquidity management, enhance capital provisions, and reduce systemic risk;
- to implement over time the multilateral strategy, with demand rebalanced to sustain growth while reducing the external current account deficit.

MONETARY POLICY

4. **Monetary policy settings are now broadly supportive of recovery, and a risk-management approach would suggest that policy should be on hold.** The Fed has eased rapidly in response to output risks and pushed the federal funds rate to a setting in real terms that in the past has been associated with recessions. Although the impact of Fed policy on the economy will be dampened by widening spreads and tighter lending standards, this is nevertheless a robust response to downward economic pressures. At the same time, surging commodity prices have lifted headline inflation, and there are some signs from bond markets and surveys that inflation expectations are edging up. Although we anticipate a lessening of inflationary pressures, vigilance will be required, given the stimulus in the pipeline and the

imperative of keeping inflation expectations well in check. Thus, it could become necessary to withdraw stimulus quickly as the economic recovery gains traction.

FISCAL POLICY

5. **Timely fiscal stimulus, and the operation of automatic stabilizers, are providing welcome support to activity at a critical time.** Tax rebate checks have been going out to low- and middle-income individuals since late April, which will temporarily boost aggregate demand at a time when oil and food prices are weighing on consumers' purchasing power.

6. **However, medium-term pressures on the budget limit the room for further discretionary fiscal expansion.** While it is encouraging that the Administration and Congress are aiming for budget balance over the medium term, these plans do not yet provide for war-funding authority beyond FY2009 or the costs of overriding legislated actions such as hikes in the alternative minimum tax and cuts in Medicare compensation. Further fiscal effort will thus be needed in the years ahead, particularly if the medium-term balance target were made more ambitious—as we continue to favor—by excluding the social security surplus. This would complement needed reform of entitlement programs that the Administration has well recognized are unaffordable over the longer term. Reflecting these medium- and long-term budget pressures, and the experience elsewhere with repeated fiscal stimulus, if further action becomes necessary to offset much weaker activity, it could most effectively be targeted to the housing and financial sectors at the root of current problems.

POLICIES TO SUPPORT HOUSING AND FINANCIAL SECTORS

7. **Timely support has been provided to the housing and financial sectors to limit macroeconomic risks.** The Administration has supported measures encouraging lenders to avoid foreclosures by modifying loans for borrowers in difficulty. Regulators of government-sponsored enterprises have taken actions that allow for additional mortgage purchases, which could improve market liquidity (albeit at a cost of adding to concerns about the financial health of these institutions and reinforcing market perceptions of an effective government guarantee of their liabilities, thus underlining the importance of enacting proposals to strengthen oversight of these enterprises). The Federal Reserve has also contributed to market liquidity and the lowering of systemic risks by establishing several types of lending facilities, including a discount window program for major investment banks (formally, for primary securities dealers).

8. **Policies need to be mindful of moral hazard, but further action to limit avoidable foreclosures is justified by risks that house prices could fall below equilibrium.** Although policies need to be mindful of moral hazard and it is clear that house prices still need to adjust down, overshooting is a clear risk with important macroeconomic consequences. We therefore support actions in Congress to foster voluntary mortgage write-downs by allowing the Federal Housing Administration (FHA) to provide guarantees for qualifying new mortgages at a significant discount from the current appraised value, as well as to introduce long-needed regulatory reform. However, the take up of FHA guarantees may be quite limited, and stronger incentives may be needed for lenders to adopt the proposal—e.g., through issuance of negative equity warrants allowing the original lender to share any profits from future sales. In addition, consideration could be given to proposals for bankruptcy

reform. Specifically, allowing judges to write down the principal on mortgages on primary residences—as is now permitted for most other forms of debt, including mortgages on second homes—warrants consideration as it could mitigate the problem of holdouts (especially lenders with second liens). While such reforms could increase borrowing costs to homeowners, it could also encourage better risk management by lenders, and the evidence suggests that the effect on mortgage costs is likely to be small.

9. **Despite the easing in financial market conditions since the crisis last March, important risks remain.** The Fed's widening of access to its discount window following the collapse of Bear Stearns has lowered systemic risks but not eliminated them. Were the fragile conditions of last March to recur, the new facility for lending Treasury securities against asset-backed securities could be adapted with due regard to moral hazard considerations. For example, the maturity of securities loans could be lengthened significantly, as has been done with government backing in the United Kingdom. Although group-level oversight has been enhanced significantly by the inception of the consolidated supervisory program for large investment banks, further regulatory reforms, many suggested in the Treasury blueprint, would help. The agreement with over the counter derivatives dealers and other active market participants on further steps to strengthen the infrastructure of those markets is also a welcome development as it would reduce future systemic risk.

LESSONS FOR FINANCIAL REGULATION AND SUPERVISIONS

10. **A key medium-term challenge for policymakers will be to restore confidence in important segments of the U.S. financial market, most notably for securitized products.** The financial boom exposed weaknesses stemming from:

- leverage that was increasingly supported with short-term funding and thin capital bases;
- weak regulation of mortgage origination, reflecting the lack of federal oversight of this sector, difficulties in coordinating across federal and state regulators, and shortfalls in consumer protection;
- and incentive problems within the securitization chain, as mortgage originators and bundlers had few incentives to maintain loan quality even as investors became overly reliant on external ratings.

11. **The Treasury blueprint provides a sensible basis for comprehensive reform and simplification of the regulatory system.** The extension of the public safety net to primary dealers, notably the major investment banks, after the collapse of Bear Stearns has underlined the importance of effective systemic regulation. In addition to revisiting risk weights for capital (including for off-balance sheet entities), enhancing liquidity provisions, increasing transparency, and reforming governance for rating agencies—as suggested by other forums including the Financial Stability Forum and the Fund—we would add:

- stronger regulation and supervision of investment bank and thrift holding companies, as well as government-sponsored enterprises, by a single supervisor, possibly the Fed;
- closer supervision of liquidity conditions in (commercial and investment) bank-holding companies, with contingency plans that factor-in interruptions of secured financing;
- counter-cyclical capital requirements and further emphasizing the leverage ratio.

12. **Recent events have highlighted the importance of better consumer protection to realign incentives in the originate-to-distribute model.** The Fed is appropriately proposing enhanced underwriting standards for lenders of risky loans, and legislation before Congress rightly instigates federal regulation of mortgage brokers when state supervision is insufficient. The creation of a business conduct regulator, with responsibilities for mortgage consumer protection, would be an important step forward, as would greater clarity on ratings on structured credit products. Holding security bundlers partially legally liable for the quality of assets they create could also improve incentives to produce safer securities.

SUPPORTING EXTERNAL ADJUSTMENT

13. **While dollar depreciation has moved U.S. competitiveness closer to medium-term fundamentals, tensions remain given the pattern of adjustment.** Bilateral rate movements have not corresponded to the existing pattern of imbalances, with larger changes against freely-floating currencies (such as the euro) than against currencies of countries with large current account surpluses (such as the renminbi). Thus, the reduction in tensions in the international exchange rate and trade system has been more limited than suggested by the dollar's real effective rate. This underlines the importance for both the U.S. and its trade partners to make further progress in implementing the agreed multilateral strategy to reduce external imbalances, rebalancing demand in a manner that sustains growth. On the U.S. side, it is appropriate that planned fiscal consolidation is being delayed to support growth.

CONCLUSION

14. **U.S. authorities are to be congratulated on their rapid and innovative responses to a complex crisis, but significant challenges lie ahead.** The policy reactions will help minimize disruption not only in the United States but across the world. These actions will need to be supplemented by broader efforts in major countries to foster stability in international financial markets and maintain an open trading system in the period ahead.

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June 23, 2008
hp-1050

Under Secretary Robert K. Steel
Keynote Address to the Managed Funds Association

Chicago- Thank you, Richard, for that kind introduction.

This year's conference has brought together some of the best minds in alternative asset management, and it is an honor to be here. The Managed Funds Association (MFA) is an important organization, and you are very fortunate to have the strong leadership of Richard Baker. I first met Richard when I was working at Goldman Sachs and then was fortunate to be able to work with him again when I moved to Washington. As a Congressman, he was one of the members we respected most and we always enjoyed working with him as a member of the House Financial Services Committee. He understands all financial services extremely well, particularly asset management, and he will be a great leader for this Association.

We continue to enjoy a great collaborative relationship with Richard and of the rest of MFA's leadership. Your organization has served as a useful source of information for policymakers like me, and your efforts to promote sound business practices are more important today than ever before.

It is always a privilege to be back in Chicago, my home for more than 15 years. I attended business school at the University of Chicago and began my career in financial services here more than 30 years ago. It was here that Secretary Paulson and I first met. We worked together in the Goldman Sachs office on the 60th floor of the Sears Tower. Chicago was then, and continues to be, a global financial center that exemplifies innovation and leads the world in global derivatives trading.

Chicago is significant to finance for other reasons as well. For instance, Chicago is the birthplace of the "Chicago School" of economics, which was developed by renowned economists like George Stigler and Milton Friedman at the University of Chicago. Their influential work emphasized free market economics and market discipline. The "Chicago School" of thought has substantially impacted the field of finance and it continues to be relevant in today's marketplace.

In fact, one observation that can be drawn from our current period is that regulation itself can not insulate us from market volatility. Friedman and his colleagues, who famously cautioned against an over-reliance on regulation, would probably not have been surprised by the irony that during recent market instability, investment partnerships have generally faired better than more directly-regulated financial institutions.

Another influential line of economic thinking – the "efficient market hypothesis" – also owes its roots to the city of Chicago. Research in the 1960s by Professor Eugene Fama, also at the University of Chicago, suggested that market participants cannot "outsmart" the market (1). This idea, which was popularized in the 1973 book *A Random Walk Down Wall Street* by Burton Malkiel, assumes that markets are "informationally efficient," and the availability of that information prevents market participants from successfully outperforming the market with any consistency greater than random chance would allow.

This hypothesis has faced its fair share of criticism over the years (2), and I am confident no one in this room believes it is impossible to outperform the market or you wouldn't be hedge fund managers. Yet, the efficient market hypothesis certainly has some truth to it - it is indeed challenging to outperform the market on a risk-adjusted basis. In fact, today's asset management industry has very clearly distinguished between the delivery of beta and alpha returns. Market-correlated returns are widely available for a very modest charge, however, the ability to produce real alpha is difficult to achieve but very valuable. The clarity of this distinction puts a clear focus on the ambition of alternative investment strategies.

The ideas developed within the "Chicago School" and the "efficient market hypothesis" have helped shape our modern views of market discipline and market integrity; and therefore have important implications for the hedge fund industry, a large portion of which is represented in the room today. In recent years, your industry has grown dramatically in both size and importance. With that growth, comes new responsibilities.

Let me spend my time this afternoon giving some background on our efforts at Treasury with regard to investment partnerships and provide a brief update on our progress. I will then describe some of the specific responsibilities that your industry must accept, followed by some perspective on the role of regulation. Finally, I will conclude with a brief update on current market conditions.

Hedge Funds and Public Policy

It has long been my view that the growing hedge fund industry brings many benefits to our capital markets. Hedge funds improve market liquidity, enhance efficiency, catalyze financial innovation and diversify the investor base within our capital markets.

Yet with the benefits of this success, hedge funds also bring the potential to pose additional risk to the financial system. The size and higher leverage suggest that hedge funds have the potential to trigger broader challenges within the financial system. Moreover, as hedge fund investments have become an increasingly attractive option for some institutional investors, new challenges arise for investor protection.

When Secretary Paulson and I arrived at Treasury in 2006, hedge funds were an increasing area of focus for public policymakers around the world. This attention was heightened in September 2006, when the failure of Amaranth Advisors marked the largest hedge fund wind-down in history. The once $9.2 billion hedge fund, lost more than $6.5 billion by employing a highly leveraged strategy concentrated in the natural gas industry. Although there were no systemic effects from the collapse of Amaranth, the losses were unsettling and the fund's failure renewed many fears both on Main Street and in Congress about the risks hedge funds pose.

At the time, many experts predicted the next round of market instability to be connected to the hedge fund industry. Knowing what we know now – that hedge funds have remained generally stable during the current period of volatility – there is a certain amount of irony to that sentiment.

These fears of the hedge fund industry were even more pronounced overseas. The German government, whose former deputy chancellor compared hedge funds to a "plague of locusts", began advocating for a government-sponsored code of conduct for hedge funds (3). In January 2007, Germany assumed the G-8 Presidency and made hedge fund regulation one of their top priorities.

While we believed hedge funds were an appropriate area of focus for public policy, we had a different perspective than the Germans on the benefits of hedge fund regulation. In February 2007, the President's Working Group on Financial Markets (PWG) – a group chaired by the Secretary of the Treasury that also includes the Chairmen of the Federal Reserve, the Securities and Exchange Commission and the Commodity Futures Trading Commission – responded by issuing principles and guidelines for private pools of capital.

It was the strong view of the President's Working Group that two issues, systemic risk and investor protection, are the key areas where policymakers should and must focus their attention with regard to hedge funds. The principles and guidelines highlight how these risks are best addressed through market discipline, disclosure and transparency and a balanced regulatory approach.

As we made clear at the time, the principles and guidelines were not an endorsement of the status quo. The ten principles provided a clear but flexible approach to address issues presented by the growth and dynamism of these investment vehicles. They represented a uniform view from the Treasury

Department and the group of key independent regulators that heightened vigilance is necessary. The PWG designed the principles to endure as financial markets evolved and identified four stakeholders who must contribute to hedge fund vigilance: asset managers, creditors, investors and regulators.

At the time, many people were calling for much more dramatic change. To our encouragement, these principles and guidelines have been extremely well received by policymakers, legislators, regulators, industry leaders and the general public, both in the U.S. and abroad. We feel good that these principles and guidelines provided the appropriate guidance to address public policy issues associated with the rapid growth of investment partnerships, including hedge funds.

Best Practices Committees

But our job was not done yet. Seven months after releasing the principles and guidelines, the PWG followed up by announcing two blue-ribbon, private sector committees - one committee comprised of investors and the other comprised of asset managers. The mission of these private sector committees is to assess and foster a private sector dialogue on issues of significance to the industry and the market.

The asset managers' committee is a diverse group of hedge fund managers, with over $140 billion in assets under management and representing many different strategies. The investors' committee members include public and private pension funds, endowments, foundations, labor organizations and hedge fund consultants.

The first task of these two committees was to develop best practices using the principles and guidelines as a framework. These best practices were released on April 15th of this year. The recommendations were open for public comment for 60 days, and that comment period just ended on June 13th. The committees will now review and, as necessary, revise these best practices and standards, before releasing the final version in the coming months.

The best practices for the asset managers call on hedge funds to adopt standards in critical areas of business, including disclosure, valuation of assets, risk management, business operations, compliance and conflicts of interest. The work done by the MFA on "sound practices" for the industry provides a useful complement to these efforts. Moreover, given the global nature of financial markets, a parallel set of best practices for asset managers were developed by a group in the United Kingdom chaired by Sir Andrew Large.

The best practices for investors include a Fiduciary's Guide and an Investor's Guide. The Fiduciary's Guide provides recommendations to individuals charged with evaluating the appropriateness of hedge funds as a component of an investment portfolio. The Investor's Guide also provides recommendations for executing and administering a hedge fund program once a hedge fund has been added to the investment portfolio. In simple terms, these two guides help fiduciaries decide if hedge funds are appropriate for their portfolio and if so how a hedge fund strategy should be developed.

Both best practices documents recommend innovative and far-reaching practices that exceed existing industry standards. The recommendations complement each other by encouraging both types of market participants to hold the other more accountable. The committees will continue to meet to discuss raising the standards for industry participants, even after the best practices are complete.

The Responsibilities of Hedge Fund Managers

The work of these two hedge fund committees comes at a critical time for the hedge fund industry. Today, global assets under hedge fund management have grown to over $ 2.7 trillion, more than triple the amount managed in 2000 (4). Last year, a high-profile research project completed by the McKinsey Global Institute named hedge funds one of four "new power brokers" that are shaping today's global capital markets. That report concluded that, "Hedge funds' unique investment activities are having a broad and undeniable influence on global financial markets (5)." This validates your industry as critically important actors in modern financial markets.

At Treasury, we have been very clear that we believe hedge funds have many benefits for global capital markets. While being an advocate for the benefits of your industry, it is also important for me to be straightforward about the risks hedge funds pose and the responsibilities you must accept. In essence, congratulations are clearly in order to you and your industry, but with the benefits of that success comes additional responsibilities.

Our hope is that you have been engaged in the process so far and taken advantage of the opportunity to submit public comments on the best practices developed by the "Asset Managers' Committee." We are appreciative that the MFA has submitted public comments. The private sector committee will greatly benefit from your perspectives. Your next task as hedge fund managers is to adopt and implement these comprehensive best practices. The best practices emphasize controls and standards in five key areas:

- Strong disclosure practices that provide investors what they need in order to make informed decisions;
- Robust valuation procedures that call for segregation of responsibilities, thorough written policies and oversight;
- Risk management practices that emphasize measuring, monitoring, and managing risk;
- Sound and controlled trading and business operations and infrastructure; and
- Specific practices, such as written code of ethics, to address conflicts of interest and promote the highest standard of professionalism.

Adopting these practices across all aspects of your business will help mitigate systemic risk and ensure investor protections.

Your industry also has a critical responsibility to maintain market integrity. As significant participants within our marketplace, you must set an example by maintaining the highest ethical standards. Attempting to `beat the market' through fraud, manipulation or rumor mongering is an unacceptable breach of market integrity. That's not beating the market, that's cheating the market.

It is important that regulators have broad authority to investigate and prosecute those who seek to gain an unfair advantage. These measures instill confidence in market participants that the market is operating in a fair and transparent fashion where rules matter. Market participants must know the playing field is level and the rules are fair.

The Role of Regulation

Today, markets remain under considerable stress and there is a debate underway about how to address these challenges. In particular, there has been substantial discussion focused on longer-term regulatory fixes. For more than a year, Secretary Paulson has been leading efforts to modernize our financial regulation. We believe today's marketplace needs a more effective and efficient regulatory structure.

Last year we began work on a *Blueprint for Financial Regulatory Reform*. That document, which was released in March, describes an optimal regulatory structure and short- and intermediate-term recommendations that will help move us toward the ideal structure.

The optimal model recommends three regulators: a regulator focused on market stability across the entire financial sector, a regulator focused on safety and soundness of those institutions supported by a federal guarantee, and a regulator focused on protecting consumers and investors.

The market stability regulator would be given broad powers to protect the stability of the overall financial system. To do this effectively, the market stability regulator should collect information from all market participants including commercial banks, investment banks, insurance companies, hedge funds and commodity pool operators. But rather than focus on the health of a particular individual organization, it will focus on whether a firm's or industry's practices threaten overall financial stability.

At the same time, it is important to recognize that regulation alone can not protect us from market challenges. Markets can and do operate very efficiently, just as the work by Milton Friedman and other Chicago economists over the years has suggested. But efficient markets require that market participants help uphold market discipline and market integrity.

Hedge funds have endured a period where many people were critical and afraid. Today your industry has been validated as a critically important player in global capital markets. With that privilege, comes new responsibility. By accepting these responsibilities, you have the opportunity to enhance the professionalism and integrity of the asset management business.

Conclusion – Update on Markets Conditions

Let me conclude by offering some brief perspective on current market conditions. As the U.S. economy continues to weather these challenging times, we face a trio of head winds – a housing correction, contracting credit conditions and high energy prices.

Capital markets continue to challenge financial institutions, as de-leveraging and re-pricing of risk continues. Secretary Paulson has urged banks to promptly recognize and report losses and raise additional capital. And many global financial institutions have begun this process – reporting losses of over $370 billion and raising additional capital of more than $275 billion. We expect the process of raising of new capital to continue, which demonstrates a long-term display of investor confidence in our financial institutions as well as the economy.

As Americans continue to spend their stimulus checks we have already seen an impact, as reported earlier this month retail sales have increased notably. To date over $71 billion in stimulus payments have been sent out to U.S. families, and $23 billion more will be sent out by the middle of this summer. We are leading several initiatives to increase the availability of affordable mortgages and keep homeowners in their homes. The housing correction is in progress.

We are optimistic that conditions will continue to improve, but not in a straight line. There is still significant de-leveraging occurring in our markets today, and we recognize that this process will take additional time. I am confident that in the long term, our markets, financial institutions and regulatory practices will all help to make our capital markets stronger, enabling them to contribute to sustainable economic growth.

Thank you. I will be happy to take your questions.

(1) See "Efficient Capital Markets: A Review of Theory and Empirical Work;" *Journal of Finance*; May 1970.

(2) For one example, see: Lo, Andrew and Craig MacKinlay; *A Non-Random Walk Down Wall Street*; Princeton University Press (1999).

(3) Mallaby, Sebastian; "Hands Off Hedge Funds"; *Foreign Affairs* Jan/Feb 2007.

(4) HedgeFund.net; First Quarter, 2008

(5)"The New Power Brokers"; McKinsey and Company; October 2007. pg 95.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 24, 2008
HP-1051

Testimony of
Deputy Assistant Secretary for Tax, Trade, and Tariff Policy
Timothy E. Skud
Before the Senate Finance Committee

Washington--Mr. Chairman, Ranking Member Grassley, and Members of the Committee, thank you for the opportunity to appear here today to discuss the Treasury Department's responsibilities for customs revenue functions and the International Trade Data System (ITDS).

Treasury Responsibility for Customs Revenue Functions

As the Committee is aware, the Secretary of the Treasury has authority for "customs revenue functions," as defined by The Homeland Security Act of 2002. Customs policy is important to the Treasury Department not only for revenue collection, but also because the way we approach taxation and regulation of international trade has an important effect on our economy and on promoting global growth. Our overall goals are promoting trade and growth, simplifying and clarifying regulations, and collecting tax accurately and efficiently, with minimal burden on the taxpayer.

While the authority for enforcing the laws involving customs revenue functions has been delegated to the Department of Homeland Security (DHS), the Treasury Department has retained an important role in this area. Specifically, the Treasury Department has sole authority to approve regulations concerning a wide range of functions involving revenue or regulating trade for economic purposes including import quotas, trade bans, user fees, origin, copyright and trademark enforcement, duty assessment, classification, valuation, preferential trade programs, and recordkeeping requirements. The Treasury Department also reviews Customs and Border Protection (CBP) rulings involving these topics that constitute a change in practice. In addition, the Treasury Department shares the chair of the Commercial Operations Advisory Committee (COAC) with DHS.

Moreover, as part of the Treasury Department's responsibility for customs revenue functions, we have worked with DHS and CBP over the past year on particular areas of concern to this Committee.

One area is simplification of the duty drawback rules, a concept we support. In conjunction with the Committee's staff and other interested offices, we have worked with CBP to provide detailed technical advice on draft legislation to simplify administration of duty drawback. We appreciate the Committee's interest and efforts in this area and look forward to continuing to work with you on this important legislation.

Another area of concern to the Treasury Department, CBP, and other trade agencies has been problems in collecting antidumping and countervailing duties. In response to Congress' interest in this area, the Treasury Department provided a report on this issue last year. Although CBP's collection rate is over 99 percent for duties overall, CBP is able to collect less than 50 percent of antidumping and countervailing duties that have been retroactively assessed in excess of bonds or cash deposits. We concluded in the report that the chief obstacle to ensuring collection of such duties is the difficulty of obtaining adequate security (cash deposits, bonds, or other instruments). This problem appears to have been exacerbated in some cases by unscrupulous importers who imported knowing they were likely to incur duties not fully secured by bonds or cash deposits following retrospective duty assessment and who then absconded when payment was due.

International Trade Data System (ITDS)

One of the most significant areas on which the Treasury Department has worked closely with CBP is the International Trade Data System (ITDS). The SAFE Port Act (P.L. 109-347, October 13, 2006) formally established ITDS and gave the Secretary of the Treasury the responsibility to coordinate interagency participation in ITDS in consultation with an interagency committee consisting of the agencies participating in ITDS and the Office of Management and Budget (OMB).

The goal of ITDS is to make the Federal government's collection of international trade data less burdensome and more efficient by integrating and fully automating the government-wide collection, use, and dissemination of international trade data. Under the ITDS concept, agencies harmonize their data requirements, eliminating redundancies and minor definitional differences. Traders submit standardized electronic import and export data one time to a single collection point, commonly called the "single-window system." The data is then distributed to agencies depending on what information they need to perform their respective trade-related missions.

ITDS is not a separate computer system. Rather, it is a feature of the Automated Commercial Environment (ACE), the new system for processing imports and exports that is being built by CBP. ITDS is being developed and will be operated by CBP with the collaboration of 43 other government agencies.

Today, international traders are confronted with duplicative and non-uniform reporting requirements, both paper and electronic. A number of Federal agencies maintain separate international trade reporting systems. Other agency processes are not automated at all, requiring traders to present CBP officials with paper documentation before their goods are allowed to enter or depart the United States.

The cost of redundant reporting requirements burdens not only importers and exporters, but also the government and the performance of the economy as a whole. These requirements protect consumers, the environment, health and safety; provide information for accurate taxation and for trade statistics; and accomplish numerous other worthwhile goals. Nevertheless, the multiple reporting schemes, superimposed one on top of another, result in a significant cumulative burden.

The very separateness of these collection systems also limits their effectiveness. Agencies do not necessarily have access to information that other agencies collect or know what actions other agencies have taken in response to that information. They act in isolation rather than together.

Benefits of ITDS

Once fully implemented, ITDS will have a number of significant benefits to the private sector and the government, including:

- Reducing the burden on business and increasing the efficiency of the government's collection of international trade transaction data by substituting standard electronic messages for the redundant reporting – often on paper forms – that occurs today.
- Enhancing the ability of CBP and other agencies to target risky cargo, persons, and conveyances.
- Extending the capabilities of ACE by bringing together critical security, public health, public safety, and environmental protection agencies through a common platform.
- Reducing the technical barriers to authorized sharing of data with other governments by accepting electronic filings reported using international standards for trade reporting (World Customs Organization standards).
- Improving compliance with laws and regulations that apply to:
  - Carriers – for example, highway safety and vessel clearance requirements,
  - People – for example, immigration requirements for drivers and crews of commercial conveyances, and
  - Goods – which consist of several hundred laws including those addressing public health and safety, animal and plant health, consumer protection, and enforcement of trade agreements.
- Providing convenient access to data on international trade that are more accurate, complete, and timely for Federal agencies with a statistical mission.
- Providing a single billing and collection point for the variety of taxes and

fees incurred by traders.
- Serving as a custodian of records on international trade transactions, providing Federal agencies with a convenient, single point of access to data on trade transactions, with each agency having its own, and appropriate, level of access.

Another important feature of ITDS is that its data requirements are being designed to be consistent with the World Customs Organization (WCO) Data Model, an international standard for reporting customs data. International trade transactions are reported not only to U.S. authorities, but also to other nations with their own electronic reporting formats. Currently, firms operating in multiple countries must report to each country in the unique format each requires. The failure to adopt internationally standardized data requirements not only creates costs for traders, but also hinders collaboration among governments to identify, track, and apprehend dangerous shipments, a matter of great importance today.

Status of the ITDS Program

When I testified before this Committee two years ago, I reported that many agencies with a border role were not participating in ITDS, and that even for the participating agencies commitment had been uneven.

This year, however, I am able to report a significant improvement in agency participation due to a number of factors. First is the Congressional mandate in the SAFE Port Act that all "agencies that require documentation for clearing or licensing the importation and exportation of cargo shall participate in ITDS."

Secondly, agency participation was spurred by the cabinet-level Import Safety Working Group, (created on July 18, 2007, by Presidential Executive Order 13439), which recognized the value of ITDS for ensuring import safety. The Working Group report, delivered to the President on September 10, 2007, recognized ITDS as a "key component to improve systems interoperability" in the effort to improve import safety. In addition, the Working Group recommended that OMB direct CBP to accelerate implementation of ITDS and, in particular, to:

- Include information currently reported by importers and carriers to CBP in the ACE Data Warehouse, where it can be accessed by other agencies; and,
- Implement the World Customs Organization Data Model messages, which could provide a platform for electronic reporting of health and safety information in advance of the current ITDS production schedule.

Moreover, following up on the SAFE Port Act and the recommendations of the Import Safety Working Group, OMB issued a policy memorandum (M-07-23) requiring each agency involved in clearing and licensing cargo to designate a senior executive to participate in the ITDS interagency team and to prepare a plan, to be completed by November 12, 2007, outlining the agency's plan for utilizing ITDS, including any necessary rulemaking or acquisitions. A subsequent OMB memorandum, issued on September 28, 2007, incorporated the Working Group recommendations with regard to ITDS. OMB is tracking each agency's participation in ITDS by establishing milestones and monitoring progress toward those milestones.

At the passage of the SAFE Port Act there were 31 agencies participating in ITDS. At that time, Treasury identified ten additional agencies required by the SAFE Port Act to participate in ITDS. All of those agencies have since joined ITDS, and OMB has also joined the ITDS Board of Directors. Currently, 43 agencies participate in the ITDS program.

Some ITDS functions are already operational. ITDS agencies are able to obtain, in near real time, detailed information about any importation reported through an electronic filing. Most information currently required by CBP from importers (entry summary data) is transferred daily from CBP's current processing system to the ACE "Data Warehouse," which ITDS agencies can access through the ACE Portal, a secure web-based interface. For example, an agency analyst using the ACE portal at his or her desk could identify all imports (which were reported electronically) for any given month, day, port, or importer over the past 3 years. Twenty-five of the agencies participating in ITDS already have access to data on import transactions through the ACE portal.

Several agencies have also been able to put this information-processing power to work. For example, as a result of information obtained through ACE/ITDS, the Food Safety Inspection Service increased the amount of ineligible product it removed from commerce 44-fold in 1 year (36,000 to 1.6 million pounds between FY 2005 and FY 2006). Access to the ACE Portal has also allowed agencies to eliminate redundant paperwork requirements. Before obtaining access to the ACE Portal, Treasury's Alcohol and Tobacco Tax and Trade Bureau required importers of industrial alcohol to file a paper certification that the product was to be used for non-beverage purposes. The import information available through the ACE Portal now allows the agency to eliminate that requirement.

Challenges Remain for ITDS

ITDS still faces a number of challenges, chiefly resource and priority issues associated with any large IT project or multi-agency project. The November 2007 Report to Congress on ITDS made 11 recommendations. While progress has been made on many of the recommendations, several challenges remain. While we will provide a complete status report by the end of 2008, as required by the SAFE Port Act, some key areas of progress are as follows:

- To some extent, ITDS has become a victim of its recent success. Increased agency participation means that fixed ITDS program resources must be spread among more agencies. Another potential issue emphasized by the growth in ITDS participation is the competition between the resources spent on "establishing a data interchange system" and those devoted to related policy and operational matters. With a finite funding stream for ITDS, delays to the completion of the "data interchange system" can put the ultimate success of the program at risk. In part, the energy of the very capable ITDS program team has mitigated this risk. (Recommendation 10)
- CBP has focused its efforts on integrating import safety agencies into ITDS and has been particularly successful in this effort. (Recommendation 1)
- Work on harmonizing data among agencies, which is critical for eliminating redundant data demands and is the basis for the entire ITDS concept, has accelerated but is not complete, in part because the talented data team has earned additional responsibilities. Ways to refocus resources in this area are under discussion. (Recommendation 2)
- ITDS agencies are already able to obtain much detailed import information through the ACE Portal, but are unable to access other data already collected electronically either (1) because the data has not yet been added to the ACE Data Warehouse, or (2) because software for retrieving that data is not fully operational. Making this data available could have immediate benefits (particularly with regard to import safety) and would also accelerate agency plans to fully utilize ITDS. These goals are being addressed but at this point, this additional data has not been made available to ITDS agencies. It may not be possible to do so without a significant impact on the current program schedule. (Recommendation 5)
- The ITDS team is aligning agency data requirements with the World Customs Organization standards for transmitting data from traders to governments, but there are not yet firm plans in place for implementing WCO consistent messaging capability in ACE. (Recommendation 7)

Conclusion

We are very pleased with the progress that has been made to date on ITDS, and we look forward to working with the participating agencies to ensure that each of the recommendations in the November 2007 report are addressed and that ITDS achieves its overall intended purpose. Once fully implemented, ITDS will provide a critical "single-window" for electronic filing by private-sector market participants and subsequent distribution of the relevant information to the appropriate Federal agencies, thereby eliminating redundant reporting and systems, while providing agencies with access to information and processing capability that they do not now have.

Mr. Chairman, thank you again for the opportunity to testify before the Committee this morning. I would be happy to answer any questions you may have.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 24, 2008
HP-1052

Deputy Assistant Secretary for Fiscal Operations and Policy
Gary Grippo
Testimony Before the House Committee on Ways and Means
Subcommittee on Social Security

Washington – Chairman McNulty, Ranking Member Johnson, and other members of the subcommittee, thank you for inviting me here today to discuss garnishment practices and their impact on federal government beneficiaries who receive their benefit payments electronically. The Committee is to be commended for continuing to focus on this issue, and I am hopeful that we will be able to achieve a solution based on sound public policy that provides appropriate protections and a balancing of consumer, government and business interests.

Treasury is willing to offer expertise and assist the federal benefit agencies in crafting a solution to this problem, leveraging our role in regulating Federal payments and working closely with the banking industry. Today, I will provide background on our role as a disburser of federal payments, our use of technology in disbursing government benefits, and our perspective on potential solutions to the garnishment issue.

Treasury's Role as a Central Disburser

One of Treasury's core functions is to develop policy for and to operate the financial infrastructure of the federal government. Treasury's Financial Management Service (FMS) provides central payment services to federal program agencies. FMS disburses 85% of the federal government's payments, including income tax refunds, Social Security benefits, veterans benefits, and other federal payments to individuals and businesses.

FMS disburses payments based on certified payment files received from program agencies. In FY 2007, FMS disbursed 982 million payments, of which 78% were issued electronically. Focusing specifically on federal benefits payments, such as Social Security and veterans benefits, or those categories of payments generally exempted by law from garnishment, FMS disbursed almost 800 million payments, of which approximately 81% were issued electronically. The largest federal benefit programs are Social Security and Supplemental Security Income, together comprising 71% of the payment volume. While the other federal benefit programs – veterans benefits, railroad retirement, civil service retirement, and black lung disability programs – represent a much smaller payment volume, the issues their beneficiaries may face when attempting to access lifeline benefits are the same. In our role as a central disburser, we would strive to ensure that any potential solution would work for all federal programs with exempt funds that are protected by law from garnishment.

Strategic Vision: Electronic Treasury

Integrating and leveraging technology into our payment programs is a long-standing strategic vision for the Department of the Treasury. Treasury's strategic goal to effectively manage the government's finances includes strategies for expanding all-electronic transactions to ensure timely and accurate payments at the lowest possible costs. Electronic payments provide real and meaningful savings not only to the government and the taxpayer but also to the financial industry. For Treasury, it costs approximately 98 cents to issue a check versus 10 cents to issue an electronic payment. When this 88 cents per item savings is multiplied over the millions of federal payments issued annually, and as recipients convert from checks to electronic payments, the savings can become substantial.

On our path toward an all-electronic treasury, we have benefited from statutes, such as the Debt Collection Improvement Act of 1996 (DCIA), that generally require federal payment recipients to receive their payment electronically. As the regulation implementing the DCIA was proposed and finalized, an appropriate public policy on electronic payments was developed, with waivers and carve-outs to electronic requirements so as to not impose an undue hardship on the payment recipients. With the implementation of the DCIA, the rate at which federal benefit payments were made by electronic payment increased from 56% in FY 1996 to 75% in FY 2000. However, since obtaining a 4-5% annual growth rate in the late 1990s, we have leveled off to a 1-2% growth rate, with some years seeing less than a 1% increase.

Treasury has also benefited from the broader acceptance of electronic banking technology as we strive to increase the use of electronic payments. In assessing our future, we recognize a changing landscape, with rapidly increasing federal benefit payment volumes resulting from baby-boomer retirements. One of our strategies to manage future payment issuance costs is to actively market and promote electronic payments, specifically direct deposit of benefit payments.

Promoting Electronic Payments

Federal benefit recipients may opt to receive their payment by check or electronically. For those recipients choosing electronic payments, Treasury offers two programs: Direct Deposit and the recently launched Direct Express card.

Direct Deposit is a payment program for consumers who authorize the deposit of payments automatically into a checking or savings account via the Automated Clearing House (ACH) network . It is Treasury's preferred payment method and is the best way for Americans to receive their federal benefit payments. The advantages of direct deposit to the government, banking system, and recipients are well documented. It is safe, convenient, reliable, and eliminates the risk of lost or stolen checks.

Ideally, individuals would sign-up for direct deposit when they apply for their benefit payment. Treasury is working with the Social Security Administration in encouraging more individuals who have a bank account to opt for direct deposit when applying for their benefit.

Just this month, Treasury launched the Direct Express card. The Direct Express card is a prepaid debit card offered to Social Security and Supplemental Security Income check recipients who wish to receive their benefits electronically. While specifically designed as a product for unbanked federal beneficiaries, anyone receiving Social Security or Supplemental Security Income benefits can sign up for the card. Treasury has designated a financial agent to issue this nationally available card for the payment of federal benefits. The features of the card were formulated after a one-year pilot program and discussions with consumer groups and other stakeholders. Most of the card services are free. There is no cost to sign up for the card and there are no monthly fees. While there are fees for a limited number of optional transactions, it is possible to use the card for free, and while the Direct Express card is currently available to only Social Security and Supplemental Security Income benefit recipients, Treasury plans to add other federal benefit programs at a later date.

Assisting Federal Benefit Agencies in Resolving the Garnishment Issue

Treasury strongly encourages and actively promotes electronic payments, but we do recognize that electronic payments may cause problems in certain instances. Specifically, individuals who have bank accounts and are subject to garnishment actions may find direct deposit unattractive. Financial institutions may freeze accounts that receive federal benefits as they perform due diligence in complying with a myriad of state laws and court orders. An account may be temporarily frozen even when the account contains federal benefits which are exempt from garnishment. Thus, a federal benefit recipient who receives direct deposit may not be able to access lifeline funds because they have been automatically routed in to a frozen account. If the recipient had received their benefits by paper check, they could cash the check without depositing it into the frozen account and have full access to the funds.

Treasury believes that any solution to this problem, whether operational, regulatory, or if necessary statutory, would ensure that federal benefit recipients have access to a certain amount of funds that cannot be frozen while the garnishment order is adjudicated by the courts and financial institutions, and while the final amounts of exempt and non-exempt funds are determined. The model used to establish the appropriate amount of funds excluded from an account freeze would need to be developed based on an analysis of benefit payment amounts and the ability of financial institutions to implement it without complex accounting or research. This type of solution seems essential to ensure that benefit recipients have access to their statutorily protected funds while the details of a garnishment order are resolved.

As referenced above, one operational solution to the problem that we currently have in place is the Direct Express card. The card account contains primarily Social Security benefit payments, which, under federal law, are protected from garnishment by creditors other than the United States government. This means that creditors do not have the right to have these funds taken out of the account, none of which would be frozen pending resolution of a garnishment order.

Treasury is willing to coordinate a joint inter-agency effort in establishing a regulatory solution to the problem, based on our expertise in managing federal payments and working with the banking industry. Treasury, the Social Security Administration, and other federal benefit agencies are working together to provide specific guidance to financial institutions on actions they must take if there are benefits in an account subject to a garnishment order. We have discussed options with Social Security Administration staff and look forward to collaborating with them and other federal benefit agencies. Treasury can offer its expertise in the payments and banking systems to help craft a government-wide policy solution. As part of this interagency effort, Treasury is willing to assist the federal benefit agencies by serving as central point-of-contact on implementation, compliance, and general administration of a rule, and in working with the appropriate federal banking regulators on enforcement.

We envision that through this interagency effort, we would provide guidance to financial institutions on how to discern if there are exempt funds in an account and what amount of funds should not be frozen. For example, a regulation could provide a safe harbor to financial institutions that follow the guidance and allow recipients access to funds. Treasury is working closely with the Social Security Administration and other federal benefit agencies on a number of complex issues that would need to be addressed as we move toward a solution. These issues include commingling of funds, account fees, look-back periods, compliance costs, and enforcement. We believe further discussion with stakeholders and a public comment period are essential to fully address these issues.

Conclusion

The impact of garnishment orders on recipients of federal benefit payments is a public policy issue that needs to be addressed. Progress has been made over the last 18 months in evaluating the complexities of this issue. Garnishment practices are also an impediment for Treasury as we strive to further promote direct deposit and electronic payments. Treasury is willing to use its expertise with Federal payments and commercial banking practices to help develop and implement a solution. We look forward to working with the federal benefit agencies, consumer groups, banking regulators, financial institutions, and the Congress to come to a consensus solution.

This concludes my formal statement. I am pleased to address any questions you may have.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 24, 2008
HP-1053

Assistant Secretary Anthony W. Ryan
Remarks at Euromoney's Global Borrowers Investors Forum

London- Good afternoon and thank you for inviting me to join you today. I appreciate the opportunity to be here in London, the capital of a nation with a rich history of producing thought leaders whose ideas we often return to over time. For example, just 30 miles northeast of here in Essex, in the churchyard of the village of High Laver, the great English philosopher John Locke was buried in 1704.

Locke is perhaps best renowned for his influential work, *Two Treatises of Government*, which outlines the "social contract." In essence, Locke postulated that individuals essentially exchange their "natural" rights for the sake of protection or to jointly preserve social order. This contract offered an escape from a constant state of war. Otherwise, according to Locke, man "however free, is full of fears and continual dangers: and it is not without reason, that he seeks out, and is willing to join in society with others, who are already united, or have a mind to unite, for the mutual preservation of their lives, liberties and estates (1)."

Three centuries and several revolutions later, the political theory behind Locke's "social contract" continues to be debated, and most importantly, applied. We can borrow liberally from this concept of a social contract, and apply it to current deliberations regarding financial markets. We need to collectively undertake efforts that seek to facilitate market stability, offer protections against known and unknown risks, reduce uncertainty but yet not eliminate natural risk taking, and unite to further strengthen and deepen our capital markets. Today, I would like to provide an update on some of the collective actions being taken to implement the policy statement released in March by the U.S. President's Working Group on Financial Markets.

Private Sector / Public Sector

More often than not, multiple perspectives on a particular issue offer us a better understanding and a better decision-making framework from which to work. We have likely all witnessed situations where one's perspective on an issue is often a function of where one sits. Such a perspective is in itself limiting. The health of our capital markets reflects the collective efforts of both the public and private sectors. To reap the benefits, both sectors must share responsibility. Few stakeholders would disagree with those statements; however, there exists a robust debate reflecting different perspectives as to what, where, when, and how each party should fulfill its respective commitment.

Private Sector

Allow me to begin with the private sector's role in the capital markets. First, we must recognize that the private sector is quite a diverse community. It is global in scope and includes both users and providers of capital. Users include those seeking to borrow money to purchase a car, parents looking to finance their children's education, married couples looking to buy their first home, and entrepreneurs hoping to secure a small business loan. Providers include individuals investing their savings and institutional pension plans. These users and providers interact with many other participants in the markets including originators of credit, financial intermediaries, firms that securitize credit, rating agencies, and others.

In seeking to accomplish their respective objectives, participants confront risk. Such risk includes credit, counterparty, operational, liquidity and reputational risk, amongst others. Successful market participants must be aware of these risks, be able to identify and assess such risks, and manage them effectively. Private-sector participants act in their own self interest, and as they exercise their powers of analysis and reason, they define and establish market discipline. Market discipline is critically important and serves multiple purposes. It serves to aid investors and lenders not just individually, but it also serves to mitigate the likelihood and severity of a systemic event.

However, despite its many virtues, the establishment and continuous deployment of robust discipline should not be taken for granted. Simply put, it can be compromised and undermined. Potential costs, complacency, and the search for fast and easy rewards can weaken such self-restraint. This is not unique to financial markets. If in doubt, just ask parents, school teachers or military leaders.

As the fog enveloping our markets continues to dissipate, we must all recognize that the erosion of market discipline contributed greatly to the challenges we are addressing today. These breakdowns in the system will continue to occupy policy makers and market participants for years to come.

It is also clear that complacency about risk manifested itself in many ways and affected a broad array of market participants, including originators of credit, financial firms that securitize credit, rating agencies, and investors.

Each group needs to be part of the rebuilding process. Efforts must be made to strengthen market practices by enhancing transparency and disclosure. The effect of many of the weaknesses in the market and the resulting challenges in addressing them were exacerbated by complexity and opacity. One of the best antidotes to mitigating opacity is better and more useful disclosure and increased transparency.

In the United States this past March, the President's Working Group on Financial Markets (PWG), an inter-agency policy group chaired by Secretary Paulson, set forth in a policy statement a broad array of recommendations to strengthen capital markets. Similarly, the Financial Stability Forum (FSF), an international forum that includes the U.S. Treasury Department and several other U.S. government agencies, issued a complementary report in April. The PWG and FSF each expects to issue a status report before the end of this year.

Financial markets are globally linked; therefore, many of the PWG recommendations will serve all market participants, not just those in the United States. Over the past several months the PWG member agencies have been actively engaged with market participants to implement these recommendations.

Recognizing the benefit and need for improved market practices and stronger market discipline, the PWG has engaged with several private-sector committees. To address disclosure and transparency issues, a private-sector committee is developing best practices regarding disclosure to investors in securitized credits, including asset-backed securities and collateralized debt obligations of asset backed securities.

The American Securitization Forum and the Securities Industry and Financial Markets Association (SIFMA) are leading this group. They are covering transparency and disclosure practices, including standardized templates, price discovery and valuation tools, and credit rating practices. They expect to issue a report later this summer.

Another area in which we need to witness a much greater awareness and appreciation of risk by market participants is the use of ratings. While we must see changes to credit rating agency practices, the users of their services must rely less on, and appreciate more, the limitations of ratings products.

To aid in accomplishing this goal, a second private-sector group is outlining further steps that issuers, underwriters, and credit rating agencies can take to ensure the integrity and transparency of ratings, and to foster the appropriate use of ratings in risk assessment. The Asset Managers' Group at SIFMA is leading this effort. They are exploring issues including: use and quality of ratings; business models; and credit rating agency independence. We expect their work to be completed by the end of July.

Once identified and assessed, risks must be better managed. During the past year, many financial institutions, money managers, and investors simply failed to appreciate the magnitude and nature of risks on their books. This inability to aggregate risk and transparently address public concerns led to even further uncertainty, volatility, and dislocations. We need improved risk management practices by investors and financial institutions.

The Senior Supervisors' Group, comprised of supervisors from five countries, issued a report highlighting the risk management practices that worked well for better-run firms. Simply put, the stronger firms invested in risk management systems – and it was capital well spent. They recognize that professional investors should not rely on disparate systems to identify, monitor and manage risk. Furthermore, they know that risk needs to be in the day-to-day routines of senior-most management – centralized, well understood, and acted upon.

Risk monitoring and management is not a function to be left solely to a back office or a set of quants – it is the senior-most management's responsibility to be fully aware of the risk they are taking on daily basis. Firms that employed such practices fared better than others.

By better assessing risks, financial institutions are better placed to manage capital, liquidity and leverage. Strong, well-capitalized financial institutions with robust risk management systems are better positioned to deal with bumps down the road. Such institutions will be able to take advantage of new opportunities, capture greater market share, and secure the confidence of creditors, shareholders, investors and regulators.

A third private-sector group is reassessing the implementation of the Counterparty Risk Management Policy Group II's existing guiding principles and recommendations regarding risk management, risk monitoring, and transparency. They are modifying and developing new recommendations to incorporate lessons from the recent turmoil, including lessons learned regarding valuation practices. This group intends to issue a report in late July that focuses on four areas of reform: financial institutions' risk management practices; structured financial products; off-balance sheet activities, including accounting policy and disclosure; and market infrastructure.

Market infrastructure is another area where we need to see further progress. This includes market-making capacity and systems for processing, clearing, and settling financial transactions. Effective market infrastructures are critical to the operating integrity and functioning of our markets and help inspire confidence in market participants. Just as innovation facilitates new financial products and instruments, innovation and technology also must be applied to facilitate more robust and efficient market infrastructure. We have seen all too often that when the back office fails, the front office fails with it.

Two large markets that play important roles in our capital markets deserve special attention: the OTC derivatives and the secured lending markets. The functioning of these markets, not only under normal market conditions, but also during turbulent periods, is critically important for the long-term health of our financial system.

Having a market infrastructure that works for all participants at all times is a key component of achieving a market with proper discipline on creditors and counterparties.

We need to continue efforts to enhance OTC market infrastructure, efforts that include implementing an integrated life-cycle processing infrastructure for all products and all participants and firmly establishing cash settlement and novation protocols.

We need complementary efforts to mitigate risks to the financial system in the event that services, including Tri-Party Repo, provide by one of the two major clearing banks for government securities were suddenly disrupted or terminated. A related challenge is the vulnerability of the repo markets, including Tri-Party Repo, as a continuous funding source. As we have witnessed, liquidity in the repo markets can evaporate suddenly if counterparties become unwilling to provide even short-term secured financing because of uncertainty. Efforts are needed to ensure that both borrowers and lenders strengthen their credit, operational and liquidity risk management practices.

Economies benefit from the greater variety of financial instruments and financing approaches. At the same time, this expansion of financial firms and the interconnected nature of their business activities and exposures coupled with more opaque and complex instruments can pose an ever-broadening array of risks to the larger financial system, and thus the broader economy.

The question of whether an institution could be "too big" to fail has evolved to whether an institution could be "too interconnected" to fail. Collectively, we must all seek to reduce the likelihood of such a failure through more robust market discipline, enhanced market infrastructure, reduced interdependence, improved transparency, and more robust awareness and management of risk. Having diverse instruments and interconnected market participants is not a problem. What we must have are mechanisms and facilities that allow a market participant to fail without compromising the broader system. Strong post-trade practices, centralized clearing, standardized practices and protocols, greater transparency, timeliness and quality of information, and better risk management systems all help.

We all need to do the hard work to address these complex challenges. We need market leaders to support strengthening practices. Changes must occur, and there is a great deal to be said when it originates within the private sector.

Public Sector

Policy makers will welcome such constructive developments by the private sector, but robust regulatory practices must complement private-sector efforts. Here, too, change is necessary. Private-sector responses and actions to address weaknesses through changed market practices will not be wholly adequate. Endorsing the status quo or hoping that the financial pain – even though it is staggering in real terms – will be sufficient enough to provide incentives for markets to operate in a safe and orderly fashion and for financial institutions to remain sound is simply not an option.

Regulatory responses are necessary to complement improved market practices. The challenge -- whether it is for parents, teachers, military leaders or regulators -- is determining the appropriate balance. Curfews for children, trips to the principal's office, and extra K.P. duty all ultimately served the purpose of fostering better discipline.

What should regulatory guidance address? Where and how should it be applied? When should changes take effect? Do regulators have the necessary authorities to fulfill their respective missions? These questions need to be asked, debated and answered.

In doing so, stakeholders must move past the rhetoric. Policy makers must certainly be aware that regulations to address risks might have not only intended consequences, but also potential unintended consequences. But dire predictions by market participants that regulatory changes or significant changes to market practices will result in the evaporation of liquidity tend to obfuscate reality.

The PWG's Policy Statement acknowledged that some regulatory policies failed to mitigate some of the weaknesses, and that regulators have an important role here, including reforming credit origination and distribution processes, reforming ratings practices and uses, strengthening global financial institutions' risk management practices, improving investor awareness of risk and due diligence, and enhancing financial market infrastructure. Regulators are engaged on all of these issues.

Our efforts need to reflect the fact that our financial system has evolved over time. Today, a significant part of lending and financial intermediation occurs outside of the traditional banking channel. The debate about regulation must address such change.

Let me be clear - our job is not to eliminate risk. Our job is to ensure that financial markets operate effectively in times of stress and in times of calm. We seek to fulfill our responsibility and accomplish these objectives. We desire and expect market participants to fulfill their responsibility by enhancing market discipline to complete the balance.

Conclusion

It is important that I stress a theme Secretary Paulson emphasized in remarks last week about our financial regulatory system. As we resolve the challenges of today, federal regulators must balance the need for market stability with concerns about the likelihood of increased moral hazard. While firm failures are painful, as a policy matter, we must be in a place where firms are allowed to fail.

We continue to work through the vestiges of the prior environment in which market discipline was compromised. Learning from the past is important, but we must also look ahead. We need to ask questions and address challenges. We might not have all the answers, but we need to address the root causes of the problems and move to strengthen the overall financial markets given their interconnected and global nature.

As financial industry professionals and policy leaders, you know first-hand the benefits of dynamic economic growth, and thus have a vested interest in capital markets that enhance investor confidence and market liquidity - both of which have been challenged significantly over the past year.

These are important issues, and all stakeholders, including regulators, must not just define solutions, but implement them, and continually seek to strengthen both our market and regulatory practices. By positively changing practices, we help strengthen market discipline, reduce uncertainty, mitigate systemic risk, restore investor confidence, and facilitate stable economic growth. In my view, this is the essence of John Locke's "social contract" from a financial markets' perspective.

At the U.S. Treasury Department, we are addressing both the current and strategic challenges, and doing all we can to ensure high-quality, competitive, and orderly capital markets. Effective and efficient capital markets rely on private-sector representatives to play a complementary role. To reap the benefits, both sectors must share responsibility and be actively engaged. Let's make sure we all do so -- there is much work to do, and much to be gained.

Thank you very much.

(1) *Two Treatises of Government*, S. 123.

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PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 24, 2008
HP-1054

Paulson to Travel to Russia, Germany, UK

Washington - Treasury Secretary Henry M. Paulson, Jr. will travel to Moscow, Berlin, Frankfurt and London June 29 – July 3 to meet with senior government officials and market participants to discuss the global economy, the launch of a Clean Technology Fund, the need to keep economies around the world open to investment and efforts to protect the global financial system from abuse by Iran.

In London Paulson will deliver a speech hosted by the Chatham House on the global economy and markets.

The following event is open to the media:

Who
U. S. Treasury Secretary Henry M. Paulson, Jr.

What
Keynote Speech on Economy and Markets hosted by Chatham House

When
Wednesday, July 2, 16:00 (Local Time)

Where
Royal Society of Arts
8 John Adam Street
WC2N 6EZ

Note
Media should register at pressoffice@chathamhouse.org.uk.
Film crews must be in place by 15:30, all other media in place by 15:45.
Chatham House Media Contact: Nicola Norton +44 (0)20 7957 5739

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 24, 2008
HP-1055

Paulson Meets with Vietnamese Prime Minister

Washington - Secretary Paulson will welcome Vietnamese Prime Minister Dung to the U.S. Treasury Department on Wednesday, June 25. They will discuss the growing economic relationship between the U.S. and Vietnam, including trade and investment issues and cooperation on economic technical assistance.

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June 25, 2008
HP-1056

Treasury Department Releases New Guidance on Health Savings Accounts

Washington, DC--The Treasury Department and the Internal Revenue Service today released Notice 2008-59, which provides employers and employees with a new set of formal questions and answers on Health Savings Accounts (HSAs).

Since HSAs were created as part of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Treasury and the IRS have issued a large number of formal guidance items containing questions and answers on HSAs. Notice 2008-59 contains over 40 new frequently asked questions and answers that cover a wide range of topics, including:

- Who is an Eligible Individual;
- Issues related to High Deductible Health Plans;
- Contributions to HSAs;
- Distributions from HSAs; and
- Establishing an HSA.

A copy of Notice 2008-59 is attached.

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REPORTS

- Notice 2008-59

Part III - Administrative, Procedural, and Miscellaneous

Health Savings Accounts

Notice 2008-59

PURPOSE

This notice provides guidance on Health Savings Accounts.

BACKGROUND

Section 1201 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, Pub. L. No. 108-173, added § 223 to the Internal Revenue Code to permit eligible individuals to establish Health Savings Accounts (HSAs) for taxable years beginning after December 31, 2003. The Health Opportunity Patient Empowerment Act of 2006, Pub. L. No. 109-432 (HOPE Act), amended § 223 of the Code effective generally for taxable years after December 31, 2006.

Notice 2004-2, 2004-1 C.B. 269, and Notice 2004-50, 2004-2 C.B. 196, provide guidance on HSAs in question and answer format. This notice addresses additional questions relating to HSAs.

TABLE OF CONTENTS

The following is an outline of the questions and answers covered in this Notice.

DEFINITIONS

I. ELIGIBLE INDIVIDUALS

II. HIGH DEDUCTIBLE HEALTH PLANS

DEFINITIONS

The following definitions apply for purposes of this Notice.

Eligible individual means an individual who: (1) is covered by a high deductible health plan (HDHP); (2) is not also covered by any other health plan that is not an HDHP (with certain exceptions for plans providing certain types of limited coverage); (3) is not enrolled in Medicare; and (4) may not be claimed as a dependent on another person's tax return. See § 223(c)(1).

Limited-purpose health flexible spending arrangement (FSA) means a health FSA described in a cafeteria plan that only pays or reimburses permitted coverage benefits (as defined in § 223(c)(2)(C)), such as vision care, dental care or preventive care (as defined for purposes of § 223(c)(2)(C)). See Prop. Treas. Reg. § 1.125-5(m)(3).

Limited-purpose health reimbursement arrangement (HRA) means an HRA that only pays or reimburses permitted coverage benefits (as defined in § 223(c)(2)(C)), such as vision care, dental care or preventive care. See Rev. Rul. 2004-45, 2004-1 C.B. 971.

Post-deductible health FSA means a health FSA in a cafeteria plan that only pays or reimburses medical expenses (as defined in § 213(d)) for preventive care or medical expenses incurred after the minimum annual HDHP deductible under § 223(c)(2)(A)(i) is satisfied. No medical expenses incurred before the annual HDHP deductible is satisfied may be reimbursed by a post-deductible FSA, regardless of whether the HDHP covers the expense or whether the deductible is later satisfied. See Prop. Treas. Reg. § 1.125-5(m)(4).

Post-deductible HRA means an HRA that only pays or reimburses medical expenses (as defined in § 213(d)) for preventive care or medical expenses incurred after the minimum annual HDHP deductible under § 223(c)(2)(A)(i) is satisfied. No medical expenses incurred before the annual HDHP deductible is satisfied may be reimbursed by a post-deductible HRA, regardless of whether the HDHP covers the expense or whether the deductible is later satisfied. See Rev. Rul. 2004-45.

QUESTIONS AND ANSWERS

I. ELIGIBLE INDIVIDUALS

Q-1. Does an individual fail to be an eligible individual, as defined in § 223(c)(1), merely because the individual is covered by an HRA which, in addition to paying and reimbursing expenses for vision, dental and preventive care, pays and reimburses premiums for coverage by an accident and health plan?

A-1. No. An individual who is otherwise an eligible individual does not fail to be an eligible individual merely because the individual is covered by an HRA which, in addition to paying and reimbursing expenses for vision, dental and preventive care, pays and reimburses premiums for coverage by an accident and health plan. See Notice 2002-45, 2002-2 C.B. 93, and Rev. Rul. 2002-41, 2002-2 C.B. 75, for guidance on HRAs.

Example. In 2008, Employer A provides an HRA which reimburses any § 213(d) medical expense incurred by an employee, employee's spouse and dependents. For 2009, Employer A amends the HRA to limit its benefits to expenses for vision care, dental care, and preventive care and to pay the employee's share of the premiums for the employer-sponsored HDHP. During 2009, A's employees are otherwise eligible individuals.

For 2009, Employer A's employees are eligible individuals even if covered by the HRA.

Q-2. If an individual is covered under a plan that pays for medical expenses incurred before the minimum HDHP deductible is satisfied and the coverage is not permitted insurance under § 223(c)(3), disregarded coverage under § 223(c)(1)(B)(ii) or preventive care under § 223(c)(2)(C), is that individual an eligible individual as defined in § 223(c)(1)?

A-2. No. To be an eligible individual, an individual must be covered by an HDHP and by no other health plan that provides coverage other than disregarded coverage under § 223(c)(1)(B) or preventive care under § 223(c)(2)(C). See Rev. Rul. 2004-45.

Example. Individual B is covered by an HDHP. In addition, Individual B is covered by a "mini-med" plan that provides the following benefits: a fixed amount per day of hospitalization; a fixed amount per office visit with a physician; a fixed amount per out-patient treatment at a hospital; a fixed amount per ambulance use; and coverage for expenses relating to the treatment of a specified list of diseases.

Although the fixed amount per day of hospitalization benefit and specified disease benefit are allowed in addition to the HDHP as permitted insurance, the other benefits are not disregarded coverage or preventive care and, thus, Individual B is not an eligible individual who can contribute to an HSA.

Q-3. If an employee is covered by an HDHP and the employer pays or reimburses some or all of the employee's medical expenses incurred before the minimum HDHP deductible is satisfied (other than disregarded coverage under § 223(c)(1)(B) or preventive care under § 223(c)(2)(C)), is the employee an eligible individual under § 223(c)(1)?

A-3. No. To be an eligible individual, an individual must be covered by an HDHP and no other health plan except disregarded coverage or preventive care. If at any time, an employer pays or reimburses, directly or indirectly, all or part of employees' medical expenses below the minimum HDHP deductible under § 223(c)(2)(A) (other than for disregarded coverage or preventive care) the employees are not eligible to contribute to an HSA.

Example 1. For 2008, an HDHP with self-only coverage has an annual deductible of $2,500. The employee pays the first $250 of covered medical expenses below the deductible. The employer reimburses the next $1,350 of covered medical expenses below the deductible. The employee is responsible for the last $900 of covered medical expenses below the deductible. The $1,350 of medical expenses paid or reimbursed by the employer is not a contribution to an HSA and not disregarded coverage or preventive care.

An employee covered by this type of plan is not an eligible individual under § 223(c)(1) because the employee has disqualifying coverage from a plan that is not an HDHP.

Example 2. For 2008, an HDHP with self-only coverage has an annual deductible of $4,500. The employee pays the first $1,100 of covered medical expenses below the deductible. The employer reimburses the next $3,400 of covered medical expenses below the deductible. The $3,400 of medical expenses paid or reimbursed by the employer is not a contribution to an HSA and not disregarded coverage or preventive care.

An employee covered by this type of plan is an eligible individual under § 223(c)(1) because the employee is responsible for the minimum annual deductible under § 223(c)(2)(A).

Q-4(a). If an individual has family HDHP coverage under which benefits are paid once the entire family incurs a minimum amount of covered expenses (an umbrella deductible), but which also provides benefits to each individual if that individual incurs expenses in excess of the minimum family HDHP deductible in § 223(c)(2)(A)(i)(II) (the embedded individual deductible), does the individual fail to be an eligible individual merely because of the embedded individual deductible?

A-4(a). No, the individual does not fail to be an eligible individual merely because of an embedded individual deductible that is no less than the minimum family HDHP deductible in § 223(c)(2)(A)(i)(II).

Q-4(b). May a post-deductible HRA or post-deductible health FSA pay or reimburse qualified medical expenses of an individual with family HDHP coverage once the minimum annual deductible in § 223(c)(2)(A)(i)(II) for family HDHP coverage has been satisfied?

A-4(b). Yes, a post-deductible HRA or post-deductible health FSA may pay or reimburse qualified medical expenses of an individual with family HDHP coverage incurred at any time after the minimum annual deductible in § 223(c)(2)(A)(i)(II) for family HDHP coverage has been satisfied.

Example. In 2008, a family with family HDHP coverage has an umbrella deductible of $3,500, and an embedded individual deductible of $2,200. A post-deductible HRA reimburses § 213(d) medical expenses incurred after $2,200 of medical expenses covered by the HDHP have been incurred.

The covered individuals, if otherwise eligible, are eligible individuals.

Q-5. Does an individual fail to be an eligible individual merely because the individual is eligible for, but not enrolled in, Medicare Part D (or any other Medicare benefit)?

A-5. No. However, an individual is not an eligible individual under § 223(c)(1) in any month during which such individual is both eligible for benefits under Medicare and enrolled to receive benefits under Medicare. See also Notice 2004-50, Q&A-2 and 3, regarding Medicare Parts A and B.

Q-6. Does an individual fail to be an eligible individual merely because the individual is enrolled in Medicare Part D, or any other Medicare benefit?

A-6. Yes. Under § 223(b)(7), an individual who is enrolled in Medicare is not an eligible individual in any month during which the individual is enrolled in Medicare.

See also Q&A-29 of this Notice regarding paying Medicare premiums with funds in an HSA.

Q-7. May an otherwise eligible individual covered by an HDHP as defined in § 223(c)(2) also be covered by a health plan that is not an HDHP with a deductible equal to or greater than the statutory minimum HDHP deductible?

A-7. Yes, as long as the deductible of the other coverage equals or exceeds the statutory minimum HDHP deductible, the individual remains an eligible individual.

Example. An otherwise eligible individual has self-only HDHP coverage from January 1 through December 31, 2008, with a deductible of $2,500 and a life-time limit on benefits of $1,000,000. In addition to the HDHP, the individual has self-only health plan coverage with a $1,000,000 deductible and a $2,000,000 life-time limit on benefits.

The individual is an eligible individual.

Q-8. Is an individual with family HDHP coverage who is also covered by a post-deductible HRA or post-deductible health FSA an eligible individual under § 223(c)(1) if the post-deductible HRA or post-deductible health FSA reimburses § 213(d) medical expenses of a spouse or dependent incurred before the minimum family HDHP deductible under § 223(c)(2)(A)(i)(II) has been satisfied?

A-8. No. If an individual with family HDHP coverage is covered by a post-deductible HRA or post-deductible health FSA that reimburses the § 213(d) medical expenses of any covered individual before the minimum family HDHP deductible under § 223(c)(2)(A)(i)(II) has been satisfied, that individual is not an eligible individual under § 223(c)(1).

Example 1. Employee C has family HDHP coverage. Employee C's spouse and children (but not Employee C) are also covered by non-HDHP family coverage provided by the spouse's employer. Employee C and Employee C's spouse and children are also covered by a post-deductible health FSA. The health FSA pays for unreimbursed medical expenses of the spouse and child without regard to the satisfaction of the deductible of the family HDHP.

Because the health FSA covering Employee C reimburses medical expenses before the minimum family HDHP deductible is satisfied, Employee C is not an eligible individual.

Example 2. Same facts as Example 1, except the health FSA does not cover Employee C. Employee C is an eligible individual.

Q-9. Is an individual an eligible individual if he or she is eligible for medical benefits through the Department of Veterans Affairs (VA) but only receives medical care that is disregarded coverage or preventive care from the VA and is otherwise an eligible individual?

A-9. Yes. Although an individual actually receiving medical benefits from the VA at any time in the previous three months is generally not an eligible individual, this rule does not apply if the medical benefits consist solely of disregarded coverage or preventive care.

Q-10. Is an otherwise eligible individual who has access to free health care or health care at charges below fair market value from a clinic on an employer's premises an eligible individual under § 223(c)(1)?

A-10. An individual will not fail to be an eligible individual under § 223(c)(1)(A) merely because the individual has access to free health care or health care at charges below fair market value from an employer's on-site clinic if the clinic does not provide significant benefits in the nature of medical care (in addition to disregarded coverage or preventive care).

Example 1. A manufacturing plant operates an on-site clinic that provides the following free health care for employees: (1) physicals and immunizations; (2) injecting antigens provided by employees (e.g., performing allergy injections); (3) a variety of aspirin and other nonprescription pain relievers; and (4) treatment for injuries caused by accidents at the plant.

The clinic does not provide significant benefits in the nature of medical care in addition to disregarded coverage or preventive care.

Example 2. A hospital permits its employees to receive care at its facilities for all of their medical needs. For employees without health insurance, the hospital provides medical care at no charge. For employees who have health insurance, the hospital waives all deductibles and co-pays.

Because the hospital provides significant care in the nature of medical services, the hospital's employees are not eligible individuals under § 223(c)(1)(A).

Q-11. If an otherwise eligible individual under § 223(d)(1) has family HDHP coverage that covers dependents, and the dependents have other, disqualifying, non-HDHP coverage, is the individual an eligible individual?

A-11. Yes. See also Rev. Rul. 2005-25. See Q&A-16 of this Notice regarding the contribution limit.

II. HIGH DEDUCTIBLE HEALTH PLANS

Q-12. If an individual switches from a family HDHP to a self-only HDHP, does the individual fail to be an eligible individual during the period of self-only coverage merely because the self-only HDHP, for the purpose of satisfying the self-only deductible, takes into account expenses incurred while the individual had family HDHP coverage?

A-12. A self-only HDHP may use any reasonable method to allocate the covered expenses incurred during the period of family coverage for the purpose of satisfying the deductible for self-only coverage. For example, subject to state law requirements, the plan may allocate to the self-only deductible only the expenses incurred by that individual. Alternatively, the plan may allocate the expenses incurred during family HDHP coverage on a per-capita basis according to the number of persons covered by the family HDHP. If the family deductible was satisfied before the change to self-only coverage, the plan may also treat the individual as having satisfied the self-only deductible for that plan year. In all cases, each expense must be allocated on a reasonable and consistent basis and, except in the case of COBRA continuation coverage, each expense may be allocated to only one individual, and the plan year must be 12 months. For individuals switching from self-only HDHP coverage to family HDHP coverage, see Notice 2004-50, Q&A-23. If COBRA continuation coverage is required to be made available, the HDHP must comply with the requirements of Q&A-2 of § 54.4980B-5 for those individuals receiving COBRA continuation coverage.

Example 1. Employer D offers its employees a calendar year health plan otherwise qualifying as an HDHP. Employee E and E's spouse are covered by Employer D's family coverage HDHP with a $6,000 deductible. Employee E incurs $2,500 in covered expenses; Employee E's spouse incurs $2,000 in covered expenses. On July 1, Employee E and Employee E's spouse each change to self-only HDHP coverage with a $3,000 deductible and Employee E's spouse is no longer covered under the plan.

For the period from July 1 through December 31, the plan may credit Employee E's self-only deductible with either: (1) $2,500 (the actual amount of expenses Employee E incurred under family coverage), or (2) $2,250 ($4,500/2), Employee E's per-capita share of expenses incurred by the two individuals covered by family coverage. In this case the HDHP must credit Employee E's spouse with at least $2,000 toward the satisfaction of the deductible; the HDHP also complies with the requirements of Q&A-2 of § 54.4980B-5 by crediting Employee E's spouse with $2,250 toward the satisfaction of the deductible.

Example 2. The same facts as Example 1, except that Employee E's spouse is entitled to elect, and elects, COBRA continuation coverage under the HDHP. In this case, the HDHP must comply with the requirements of Q&A-2 of § 54.4980B-5.

Example 3. The same facts as Example 2, except that the amounts incurred by Employee E and Employee E's spouse are reversed: Employee E incurred $2,000 of medical expenses and Employee E's spouse incurred $2,500.

If the HDHP credits Employee E's spouse with $2,250 toward the satisfaction of the deductible, this would not satisfy the requirements of Q&A-2 of § 54.4980B-5. Employee E's spouse must be credited with at least $2,500 toward the satisfaction of the deductible to comply with the requirements of Q&A-2 of §54.4980B-5.

Example 4. Employer F offers its employees a calendar year health plan, otherwise qualifying as an HDHP. As of January 1, 2008, Employee G, and Employee G's spouse and child are covered by Employer F's family coverage HDHP with a $6,000 deductible. From January 1 through September 30, 2008, Employee G incurs $2,500 in covered expenses; Employee G's spouse incurs $500 in covered expenses, and Employee G's child incurs $3,000 in covered expenses. Employee G and spouse are divorced, effective October 1, 2008. On that date, Employee G changes to self-only HDHP coverage with a $3,000 deductible and the child and ex-spouse elect COBRA continuation coverage in Employer F's family HDHP coverage.

The plan may (1) credit Employee G's individual deductible with $2,500 and reduce the expenses allocated to the child and ex-spouse in family coverage by $2,500; or (2) credit Employee G's self-only deductible with $2,000 and reduce the expenses allocated to the child and ex-spouse by $2,000 (allocating one-third of the $6,000 in expenses to Employee G's individual deductible and two-thirds of the $6,000 in expenses to the former spouse and child remaining in family coverage). Coverage of the child and former spouse is COBRA continuation coverage. However, if the pro rata allocation of expenses of the family to the child and former spouse were less than the actual expenses incurred by the child and former spouse, then allocation of only the ratable share of the family expenses would not comply with the requirements of Q&A-2 of § 54.4980B-5; (3) credit Employee G with no expenses and continue to credit the child and ex-spouse with all expenses incurred under family coverage; or (4) treat Employee G as having satisfied the $3,000 individual deductible while treating the former spouse and child as having satisfied the $6,000 family deductible.

Q-13. If a health plan imposes a separate or higher deductible for specific benefits, are amounts paid by covered individuals to satisfy the separate or higher deductible treated as out-of-pocket expenses under § 223(c)(2)(A)?

A-13. If significant other benefits remain available under the plan in addition to the specific benefits subject to the separate or higher deductible, amounts paid to satisfy the separate or higher deductible are not treated as out-of-pocket expenses under § 223(c)(2)(A).

Example. In 2008, a self-only health plan with a $3,000 deductible imposes a lifetime limit of $1,000,000 on reimbursements for covered benefits. The plan pays 100 percent of covered expenses after the $3,000 deductible is satisfied. Although the plan provides benefits for substance abuse treatment, the substance abuse treatment benefits are subject to a separate $5,000 deductible, and these benefits are limited to $10,000, after the separate deductible is satisfied.

The plan is an HDHP and no expense incurred by a covered individual other than the $3,000 general deductible is treated as an out-of-pocket expense under § 223(c)(2)(A).

Q-14. If a health plan meeting the minimum deductible of § 223(c)(2)(A) restricts benefits to expenses for hospitalization or in-patient care, is the plan an HDHP?

A-14. No. A plan must provide significant benefits to be an HDHP. A plan may also be designed with reasonable benefit restrictions limiting the plan's covered benefits. See Notice 2004-50, Q&A-15. However, if a plan only provides benefits for expenses of hospitalization or in-patient care, significant other benefits do not remain available under the plan in addition to the benefits subject to exclusion. Therefore, any expenses incurred by a covered individual after satisfying the deductible are treated as out-of-pocket expenses under § 223(c)(2)(A).

Example. In 2008, a self-only health plan with a $2,000 deductible includes a $3,000,000 lifetime limit on covered benefits. Generally, the plan only provides benefits for medical services provided while a covered individual is admitted to a hospital as an overnight patient or provided at a "same day" surgery facility. A same day surgery facility does not include a hospital emergency room, a trauma center, a physician's office or a clinic. Covered medical services for individuals admitted to a hospital or same day surgery facility include room accommodations, miscellaneous medical services and supplies necessary for treatment, primary surgery, pathology charges and the administration of anesthesia while at the hospital or center, and charges by the primary attending physician for one visit per day while at the hospital. In addition, the plan provides: an organ transplant benefit, a hospice care benefit, and home health care visits. The home health care benefit is subject to a 60 visit per year limit, and must be in connection with the hospitalization. The plan also pays for certain preventive care screening and ambulance service. The plan pays for no visits to physician's offices nor any other out-patient care other than those noted above. The maximum dollar amount that the covered individual pays for covered benefits under the plan for 2008 is $5,500.

The restriction of benefits to medical services provided while the covered individual is admitted to a hospital or at a same day surgery facility is not reasonable because significant other benefits do not remain available under the plan after application of the restriction. Any expenses incurred by a covered individual for out-patient care or visits to physician's offices are treated as out-of-pocket expenses under § 223(c)(2)(A). Because the plan maximum for amounts paid by a covered individual does not restrict payments for those out-of-pocket expenses, the plan fails to qualify as an HDHP.

Q-15. What medical expenses may be taken into account in determining when the HDHP deductible is satisfied for purposes of a post-deductible HRA or post-deductible health FSA?

A-15. Only medical expenses described in § 213(d) and covered by the HDHP may be taken into account in determining whether the HDHP deductible, or the minimum deductible in § 223(c)(2)(A)(i), has been satisfied. For example, if the HDHP does not cover chiropractic care, expenses incurred for chiropractic care do not count toward satisfying the HDHP deductible or the minimum deductible in § 223(c)(2)(A)(i). For self-only HDHP coverage, only the covered medical expenses of the covered individual count toward satisfying the HDHP deductible or the minimum deductible in § 223(c)(2)(A)(i)(I).

Example. In 2008, an individual, spouse and child have family HDHP coverage with a $2,500 deductible. The HDHP does not provide benefits for vision or dental care. They are also covered by a combination limited purpose/post-deductible HRA that pays or reimburses § 213(d) medical expenses incurred by each family member after the family incurs $2,500 in covered medical expenses, and pays or reimburses vision and dental expenses before and after the HDHP deductible is satisfied. On February 15, 2008, the family incurs $2,500 in vision and dental expenses that are reimbursed by the

HRA. On March 17, 2008, the family then incurs $400 in expenses covered by the HDHP (but for the deductible). The family must incur an additional $2,100 in covered medical expenses before the HDHP deductible is satisfied.

The HRA may not reimburse the family for the $400 of expenses because the family had not incurred $2,500 in covered expenses when the $400 was incurred.

III. CONTRIBUTIONS

Q-16. How do the maximum annual HSA contribution limits apply to an eligible individual with family HDHP coverage for the entire year if the family HDHP covers spouses or dependent children who also have coverage by a non-HDHP, Medicare, or Medicaid?

A-16. The eligible individual may contribute the § 223(b)(2)(B) statutory maximum for family coverage. Other coverage of dependent children or spouses does not affect the individual's contribution limit, except that if the spouse is not an otherwise eligible individual, no part of the HSA contribution can be allocated to the spouse.

Q-17. How do the maximum annual HSA contribution limits apply to a married couple if both spouses are eligible individuals and one spouse has self-only HDHP coverage and the other spouse has family HDHP coverage?

A-17. The maximum annual HSA contribution limit for a married couple if one spouse has family HDHP coverage and the other spouse has self-only HDHP coverage is the § 223(b)(2)(B) statutory maximum for family coverage. The contribution limit is divided between the spouses by agreement. See § 223(b)(5) and Notice 2004-50, Q&A-32. This is the result regardless of whether the family HDHP coverage includes the spouse with self-only HDHP coverage. See Notice 2004-2, Q&A-15. If only one spouse is an eligible individual, see Rev. Rul. 2005-25.

Example. For 2008, H and W are married. Both are 40 years old. H and W are otherwise eligible individuals. H has self-only HDHP coverage. W has an HDHP with family coverage for W and their two children.

The combined contribution limit for H and W is $5,800, which is the § 223(b)(2)(B) statutory contribution limit for 2008. H and W divide the $5,800 contribution limit between them by agreement.

Q-18. How do the maximum annual HSA contribution limits apply to a married couple if both spouses are eligible individuals and each spouse has family HDHP coverage that does not cover the other spouse?

A-18. The maximum HSA contribution limit for a married couple where both spouses have family HDHP coverage is the § 223(b)(2)(B) statutory maximum. This rule applies regardless of whether each spouse's family coverage covers the other spouse. The contribution limit is divided between the spouses by agreement.

Example. In 2008, H, who is 37, and W, who is 32, are married with two dependent children. H has HDHP family coverage for H and their two children with an annual deductible of $3,000. W has HDHP family coverage for W and their two children with a deductible of $3,500.

The combined contribution limit for H and W is $5,800, the maximum annual contribution limit. H and W divide the $5,800 contribution limit between them by agreement.

Q-19. May an individual who ceases to be an eligible individual during a year still contribute to an HSA with respect to the months of the year when the individual was an eligible individual?

A-19. Yes. An individual who ceases to be an eligible individual may, until the date for filing the return (without extensions) for the year, make HSA contributions with respect to the months of the year when the individual was an eligible individual.

Example. J has a self-only HDHP, and is an eligible individual for the first four months of 2008. J has until April 15, 2009 (the date for filing the 2008 return, without extensions) to contribute 4/12 x $2,900 ($967) to an HSA.

Q-20. May an individual who is not an eligible individual make a rollover contribution from his or her existing HSA to a new HSA?

A-20. Yes.

Q-21. May employer contributions to employees' HSAs made between January 1 and the date for filing the employee's return, without extensions, be allocated to the prior year?

A-21. Yes. For employer contributions (including salary reduction contributions) made between January 1 and the date for filing the employees' returns without extension, the employer must notify the HSA trustee or custodian if the contributions relate to the prior year. The employer must also inform the employee of the designation. However, the contributions designated as made for the prior year are still reported in box 12 with code W on the employees' Form W-2 for the year in which the contributions are actually made.

Example. In January 2009, Employer K contributes $500 to each employee's HSA and notifies the HSA trustee (and provides a statement to the employees) that the contributions are for 2008. Subsequently, in 2009, Employer K contributes $250 to each employee's HSA on March 31, June 30, September 30 and December 31. For each employee whose HSA received these contributions, Employer K reports a total contribution of $1,500 in box 12 with code W on the Form W-2 for 2009.

In completing the Form 8889 for 2008, to compute Employer K's contributions, the employees add the $500 to any employer contributions reported in box 12, code W on the 2008 Form W-2. In completing the Form 8889 for 2009, the employees subtract the $500 from the box 12 code W amount on the 2009 Form W-2 and add to the remaining $1,000 any contributions for 2009 made by Employer K between January 1, 2009 and his or her filing date without extensions. See Instructions to Form 8889.

Q-22. If a husband and wife are each eligible to make catch-up contributions under § 223(b)(3), must each spouse contribute their catch-up contributions to their own HSA?

A-22. Yes. An individual who is eligible to make catch-up contributions may only make such contributions to his or her own HSA. See also Notice 2004-50, Q&A-32. If both spouses are eligible for the catch-up contribution, each spouse must make catch-up contributions to his or her own HSA.

Q-23. If an employer contributes to the account of an employee who was never an eligible individual, can the employer recoup the amounts?

A-23. If the employee was never an eligible individual under § 223(c), then no HSA ever existed and the employer may correct the error. At the employer's option, the employer may request that the financial institution return the amounts to the employer. However, if the employer does not recover the amounts by the end of the taxable year, then the amounts must be included as gross income and wages on the employee's Form W-2 for the year during which the employer made the contributions.

Example 1. In February 2008, Employer L contributed $500 to an account of Employee M, reasonably believing the account to be an HSA. In July 2008, Employer L first learned that Employee M's account is not an HSA because Employee M has never been an eligible individual under § 223(c).

Employer L may either request that the financial institution holding Employee M's account return the balance of the account ($500 plus earnings less administration fees directly paid from the account) to Employer L. If Employer L does not receive the balance of the account, Employer L must include the amounts in Employee M's gross income and wages on his Form W-2 for 2008.

Example 2. The same facts as Example 1, except Employer L first discovers the mistake in July 2009. Employer L issues a corrected 2008 Form W-2 for Employee M, and Employee M files an amended income tax return for 2008.

Q-24. If an employer contributes amounts to an employee's HSA that exceed the maximum annual contribution allowed in § 223(b) due to an error, can the employer recoup the excess amounts?

A-24. If the employer contributes amounts to an employee's HSA that exceed the maximum annual contribution allowed in § 223(b) due to an error, the employer may correct the error. In that case, at the employer's option, the employer may request that the financial institution return the excess amounts to the employer. Alternatively, if the employer does not recover the amounts, then the amounts must be included as gross income and wages on the employee's Form W-2 for the year during which the employer made contributions. If, however, amounts contributed are less than or equal to the maximum annual contribution allowed in § 223(b), the employer may not recoup any amount from the employee's HSA.

Q-25. If an employer contributes to the HSA of an employee who ceases to be an eligible individual during a year, can the employer recoup amounts that the employer contributed after the employee ceased to be an eligible individual?

A-25. No. Employers generally cannot recoup amounts from an HSA other than as discussed above in Q&A-23 and Q&A-24. See Notice 2004-50, Q&A-82.

Example. Employee N was an eligible individual on January 1, 2008. On April 1, 2008, Employee N is no longer an eligible individual because Employee N's spouse enrolled in a general purpose health FSA that covers all family members. Employee N first realizes that he is no longer eligible on July 17, 2008, at which time Employee N informs Employer O to cease HSA contributions.

Employer O's contributions into Employee N's HSA between April 1, 2008 and July 17, 2008 cannot be recouped by Employer O because Employee N has a nonforfeitable interest in his HSA. Employee N is responsible for determining if the contributions exceed the maximum annual contribution limit in § 223(b), and for withdrawing the excess contribution and the income attributable to the excess contribution and including both in gross income.

Q-26. Are employer contributions to the HSA of an employee's spouse (who is not an employee of this employer) excluded from the employee's gross income and wages?

A-26. No. The exclusion under § 106(d)(1) is limited to contributions by an employer to the HSA of an employee who is an eligible individual. Any contribution by an employer to the HSA of a non-employee (e.g., a spouse of an employee or any other individual), including salary reduction amounts made through a § 125 cafeteria plan, must be included in the gross income and wages of the employee.

IV. DISTRIBUTIONS

Q-27. May an HSA be administered through a debit card that restricts payments and reimbursements to health care?

A-27. Yes, if the funds in the HSA are otherwise readily available. For example, in addition to the restricted debit card, the HSA account beneficiary must also be able to access the funds other than by purchasing health care with the debit card, such as through online transfers, withdrawals from automatic teller machines or check writing. Employers must notify employees that other access to the funds is available. See also Notice 2004-50, Q&A-77 and 79.

Q-28. May an HSA account beneficiary authorize someone else to withdraw funds from his or her HSA?

A-28. Yes. Although an HSA is an individual account, an HSA account beneficiary can designate other individuals to withdraw funds pursuant to the procedures of the trustee or custodian of the HSA. Distributions are subject to tax if they are not used to pay for qualified medical expenses for the HSA account beneficiary, the account beneficiary's spouse, or dependents. See Notice 2004-2, Q&A-25. But see Q&A-34, Q&A-35, and Q&A-36 of this Notice regarding prohibited transactions.

Q-29. If the account beneficiary has attained age 65, are Medicare Part D premiums qualified medical expenses?

A-29. Yes. If an account beneficiary has attained age 65, premiums for Medicare Part D for the account beneficiary, the account beneficiary's spouse, or the account beneficiary's dependents are qualified medical expenses. See also Notice 2004-2, Q&A-27, and Notice 2004-50, Q&A-4 and 45, regarding Medicare Parts A and B. See Q&A-6 of this Notice regarding eligibility of Medicare enrollees to contribute to an HSA.

Q-30. If the account beneficiary has not attained age 65, are Medicare premiums for coverage of an account beneficiary's spouse (who has attained age 65) qualified medical expenses?

A-30. No. If the account beneficiary has not attained age 65, Medicare premiums are generally not qualified medical expenses.

Q-31. Are premiums for continuation coverage required under Federal law for the spouse or dependent of an account beneficiary qualified medical expenses?

A-31. Yes. Although qualified medical expenses generally exclude payments for insurance, § 223(d)(2)(C)(i) provides an exception for the expense of coverage under a health plan during any period of continuation coverage.

Q-32. Are premiums for health coverage for a spouse or dependent during a period when the spouse or dependent is receiving unemployment compensation under any Federal or state law qualified medical expenses?

A-32. Yes. Although qualified medical expenses generally exclude payments for insurance, § 223(d)(2)(C)(iii) provides an exception for the expense of coverage under a health plan during a period in which an individual is receiving unemployment compensation under any Federal or state law.

Q-33. Do qualified medical expenses for HSA purposes include the § 213(d) medical expenses incurred by an account beneficiary's child who is claimed as a dependent by the account beneficiary's former spouse?

A-33. Yes. See §§ 152(e) and 213(d)(5).

V. PROHIBITED TRANSACTIONS

Q-34. If an account beneficiary borrows funds from his or her HSA, is this a prohibited transaction under § 4975?

A-34. Yes. An HSA is a plan as defined in § 4975(e)(1)(E). An HSA account beneficiary is a disqualified person under § 4975(e)(2). A loan or extension of credit between a plan and a disqualified person is a prohibited transaction. Section 4975(c)(1)(B). Thus, any direct or indirect extension of credit between the account beneficiary and his or her HSA is a prohibited transaction.

Q-35. If a trustee of an HSA lends money to the HSA, is this a prohibited transaction under § 4975?

A-35. Yes. An HSA is a plan as defined in § 4975(e)(1)(E). An HSA trustee is a transactions" with an HSA (e.g., the account beneficiary may not sell, exchange, or lease property, borrow or lend money, pledge the HSA, furnish goods, services or facilities, transfer to or use by or for the benefit of himself/herself any assets of the HSA, etc.). If an account beneficiary engages in a prohibited transaction with his or her HSA the sanction, in general, is disqualification of the account. Thus, the HSA stops being an HSA as of the first day of the taxable year of the prohibited transaction. The assets of the beneficiary's account are deemed distributed, and the appropriate taxes, including the 10 percent additional tax under § 223(f)(4) for distributions not used for qualified medical expenses, apply.

If the employer sponsoring the account (or other disqualified person) is the party engaging in a prohibited transaction, then the employer (or other party) is liable for the excise tax, but the account beneficiary is not.

VI. ESTABLISHING AN HSA

Q-38. When is an HSA established?

A-38. An HSA is an exempt trust established through a written governing instrument under state law. Section 223(d)(1). State trust law determines when an HSA is established. Most state trust laws require that for a trust to exist, an asset must be held in trust; thus, most state trust laws require that a trust must be funded to be established. Whether the account beneficiary's signature is required to establish the trust also depends on state law.

Q-39. May a trustee treat an HSA as established before the date of establishment determined under state law, such as the date when HDHP coverage began?

A-39. No. But see Q&A-40 and Q&A-41 of this Notice concerning the establishment date for HSAs in connection with rollovers, or where a previous HSA was established.

Q-40. When is an HSA established if the funds in the HSA were rolled over or transferred from an Archer MSA or another HSA?

A-40. An HSA that is funded by amounts rolled over or transferred from an Archer MSA or another HSA is established as of the date the prior account was established. Qualified HSA distributions under § 106(e) or qualified HSA funding distributions under § 408(d)(9) do not affect the HSA establishment date. See also Notice 2004-2, Q&A-23.

Example. An account beneficiary established an Archer MSA on October 17, 2000. On May 13, 2004, the account beneficiary rolled the entire amount held in the Archer MSA into an HSA. On January 1, 2008, the account beneficiary has the HSA trustee make a direct transfer of the entire HSA to an HSA with a new trustee.

The establishment date of the HSA with the new trustee is October 17, 2000.

Q-41. On what date is an HSA established if the account beneficiary had previously established an HSA?

A-41. If an account beneficiary establishes an HSA, and later establishes another HSA, any later HSA is deemed to be established when the first HSA was established if the account beneficiary has an HSA with a balance greater than zero at any time during the 18-month period ending on the date the later HSA is established.

Example 1. An account beneficiary established an HSA on March 1, 2007. On June 15, 2007, he withdrew all the funds from the HSA, resulting in a zero balance. On November 21, 2008, he established a second HSA.

Because the second HSA was established within 18 months of June 15, 2007, the second HSA is deemed to be established on March 1, 2007.

Example 2. The same facts as Example 1, except that the account beneficiary establishes a third HSA on January 1, 2009. On that date, the second HSA has a balance greater than zero.

The third HSA is deemed to be established on March 1, 2007.

VII. ADMINISTRATION

Q-42. How are HSA administration and maintenance fees withdrawn by the trustee from an HSA reported by the trustee?

A-42. HSA administration and maintenance fees withdrawn by the trustee are reflected on the Form 5498-SA in the fair market value of the HSA at the end of the taxable year. These fees are not reported as distributions from the HSA.

EFFECT ON OTHER DOCUMENTS

Notice 2004-2, 2004-1 C.B. 269, Notice 2004-50, 2004-2 C.B. 196, and Notice 2007-22, 2007-10 I.R.B. 670, are amplified.

DRAFTING INFORMATION

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

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June 25, 2008
HP-1057

Treasury Releases Fifth in a Series of Social Security Papers

Washington, DC – Treasury today released the fifth in a series of papers on Social Security. Issue Brief No. 5 is entitled Social Security Reform: Strategies for Progressive Benefit Adjustments.

REPORTS

- Social Security Reform

ISSUE BRIEF NO. 5

SOCIAL SECURITY REFORM: STRATEGIES FOR PROGRESSIVE BENEFIT ADJUSTMENTS

This is the fifth in a series of Treasury issue briefs on topics related to Social Security reform. The fundamental reason Social Security must be reformed is that scheduled benefits under current law exceed the future revenues that the system is projected to take in. Specifically, scheduled benefits have a present value that is $13.6 trillion greater than the present value of the revenues that the system is projected to receive. Relative to scheduled benefits and taxes, therefore, the present value of benefits less taxes must be reduced by $13.6 trillion. This can be done by increasing revenues relative to what is provided for under current law and/or by lowering benefits relative to what are currently scheduled but not fully payable under current law.

This brief discusses the possible role that progressive reductions in scheduled benefits would play in Social Security reform. A progressive reduction in scheduled benefits would have high earners bear a relatively larger share of the burden of the adjustments needed to make Social Security permanently solvent, while workers with low earnings would be relatively shielded from the impact of benefit reductions. Under such a change, the reduction in scheduled benefits expressed as a share of wages while working would be higher for high-wage workers than it is for low-wage workers. While there is considerable disagreement about the precise nature and timing of the reforms that will ultimately make Social Security solvent, there is broad agreement that progressive benefit adjustments will be a key component of those reforms. Indeed, most proposed reforms to move Social Security toward permanent solvency call for benefit changes of this type.[1]

An important theme of this brief is that all plans that progressively reduce the growth rate of benefits operate in essentially the same way. Plans differ with regard to how rapidly and how progressively benefits are reduced, but the key levers used to slow the growth of benefits are the same.

Two points should be kept in mind in considering plans that involve changes to scheduled benefits. The first point is that currently scheduled benefits cannot actually be paid under current law since Social Security is projected to have insufficient funds to pay scheduled benefits from 2041 on. Paying currently scheduled benefits would require additional revenues. Comparing benefits in a solvent plan with an unpayable level of benefits in an insolvent plan is potentially misleading. The second point is that pro-

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1 For example, this is true of plans proposed by Jeffrey Liebman, Maya MacGuineas, and Andrew Samwick (http://www.nonpartisanssplan.com/pages/1/index.htm); by Peter Diamond and Peter Orszag (http://www.ssa.gov/OACT/solvency/DiamondOrszag_20031008.pdf); and by Robert Pozen (http://www.ssa.gov/OACT/solvency/RPozen_20050210.pdf).

posals to reduce scheduled benefits typically do not actually cut benefits in either nominal or real terms; benefits of successive birth cohorts continue to grow over time, but at a slower rate than the benefits scheduled under current law. In other words, future retirees would receive benefits that are at least as large in real terms as what is received by current retirees; the benefits would just not be as large as what is now scheduled but not payable.

Reforms that bring the system into balance by slowing benefit growth (that is, reducing scheduled benefits) have the potential to be fairer to future generations than comparable reforms that achieve solvency by raising taxes. This is because the tax approach would result in a much larger increase in attempted pre-funding as more resources are brought into the system in advance of when benefits are paid. As discussed in issue briefs 3 and 4, prefunding provides resources for future generations only if the increased revenues brought into the Social Security program do not give rise to higher spending and/or lower taxes in the rest of the budget. If the increased surplus revenues are offset by larger deficits in the rest of the budget, the surpluses would not increase the government's capacity to pay future Social Security benefits and the attempt to make older workers pay a reasonable share of the reform burden through tax increases would be undone: While Social Security would be made fairer to future generations, that effect would be entirely offset by a non-Social Security fiscal policy that places a greater fiscal burden on future generations. A reduction in the growth rate of benefits, on the other hand, relies less on pre-funding to make Social Security fair across generations and is therefore less subject to this problem.

Another reason why many Social Security reform plans propose reductions in scheduled growth of benefits is to ensure that all workers bear a reasonable portion of the burden of Social Security reform. If Social Security were made solvent with tax increases alone, the tax increases would have to be large and abrupt if workers in the middle of their lives at the time of reform are to shoulder a reasonable share of the reform burden. For example, a worker aged 35 when reform is implemented would face higher payroll taxes for two-thirds of his working life, whereas a 20 year old would face higher payroll taxes for his entire working life. By contrast, these two workers would make the same contribution to a reform that involves reducing the benefits they are scheduled to receive in retirement so long as the benefit adjustments are fully phased in by time the older worker retires.

Treasury's second and third issue briefs developed a practical framework for designing and evaluating Social Security reform plans that is built around specific metrics for assessing the effect that reforms would have on fairness across generations, fairness within generations, and benefit adequacy. Those metrics can be used to assess reforms that yield a permanently solvent system. Changes in scheduled benefits must typically be combined with other reforms to yield a permanently solvent system. As the other parts of a plan might be progressive or regressive, the overall plan must be evaluated to fully quantify the level of progressivity brought about from the reform. It could be, for example, that benefit changes in a plan improve progressivity but that this is offset by other provisions.

This last observation highlights the value of the "top-down" approach to Social Security reform set forward in Treasury's previous issue briefs. A "top-down" approach to Social Security reform begins by laying down high-level measurable goals relating to how the reform burden is allocated across and within generations, the level of benefits, and how pre-funding is to be attempted. Once those goals are defined, it is then possible to construct a package of reforms that achieves them. In general, it will be possible to find more than one package of reforms that achieves a particular set of high-level reform goals; the choice among such plans must therefore be made with reference to other, less essential considerations.

In contrast, what might be called a "bottom-up" approach to Social Security reform would entail selecting reform elements from a list of specific modifications to benefits and revenues and then evaluating the impact of the choices on Social Security's finances.[2] A bottom-up reform plan would be devised by selecting enough items from such a list to reach a solvency target.

Before considering the various ways in which progressive adjustments to benefits can be implemented, it is useful to begin with a review of how Social Security retirement benefits are computed under current law.

There are three steps involved in computing initial benefits under Social Security. First, a special average of the individual's taxable earnings while working is calculated; this average earnings measure is known as average indexed monthly earnings, or AIME.[3] Second, a progressive formula is used to convert the AIME into a primary insurance amount, or PIA. Third, initial benefits are determined by adjusting the PIA for retirement before or after the normal retirement age and adjusting for price inflation between age 62 and the time the individual begins collecting benefits. After benefit payments commence, they are then adjusted for price inflation each January.

Steps one and two of the benefit calculation involve indexing individual earnings and key parameters of the benefit formula to a measure of economy-wide average wages. First, in computing the AIME, an individual's annual taxable earnings prior to age 60 are indexed to the growth of economy-wide average wages between the time the earnings were received and the time the individual is age 60. For example, if economy-wide average wages in the year an individual is age 40 are half as large as economy-wide average wages in the year the individual is age 60, then the individual's age-40 earnings are scaled to be twice as large. Indexed earnings prior to age 60 and actual earnings after age 60 are referred to collectively as "indexed taxable earnings," with the AIME computed as the average of the highest 35 years of indexed covered earnings divided by 12.

Second, the formula relating an individual's AIME to his or her primary insurance amount changes every year in accordance with changes in the economy-wide average wage. This formula is illustrated in figure 1. It has three linear segments; specifically:

- For AIME between zero and 22 percent of the economy-wide average wage in the year a new beneficiary is age 60, the PIA increases by 90 cents for each additional dollar of AIME;
- For AIME between 22 and 131 percent of the economy-wide average wage in the year a new beneficiary is age 60, the PIA increases by 32 cents for each additional dollar of AIME; and,
- For higher levels of AIME, the PIA increases by 15 cents for each additional dollar of AIME.[4]

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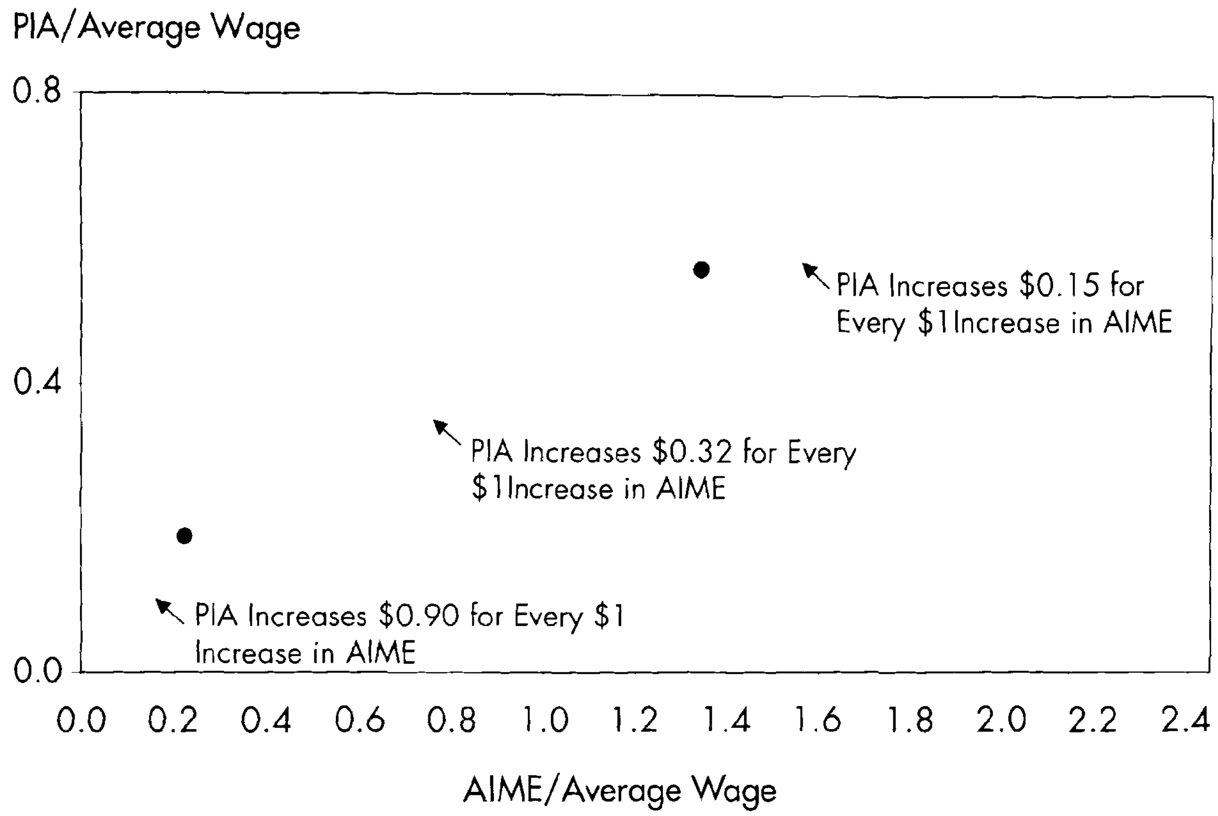
2 For example, such a list can be found at the Social Security Administration's web site: http://www.ssa.gov/OACT/solvency/provisions/index.html.

3 Under Social Security, annual earnings are taxed up to a maximum level ($102,000 in 2008); "taxable earnings" therefore refers to earnings that are below this level. This taxable maximum is indexed to the growth of economy-wide average wages.

4 Since only earnings below the taxable maximum are included in the AIME computation, there is a maximum PIA that can be obtained in any given year (it is the PIA that corresponds to the AIME of a worker whose earnings were at or above the taxable maximum for 35 or more years).

Figure 1: Current-Law Primary Insurance Amount Formula



Source: Department of the Treasury

The AIME level at which the slope of the PIA formula changes is referred to as a bend point, while the slope of a linear segment of the formula between bend points is referred to as a PIA multiplication factor. The fact that the multiplication factors get smaller for successive AIME ranges is what makes Social Security's benefit formula progressive: specifically, each additional dollar of AIME starts out by yielding 90 cents in initial benefits, then 32 cents, and finally 15 cents. The absolute levels of the bend points are indexed to economy-wide average wages; hence, if the AIME and PIA values are expressed as a share of economy-wide average wages in the year that a new beneficiary is age 60—as is done in Figure 1 then the resulting benefit formula will be the same for every birth cohort.

A straightforward way to adjust benefits involves directly changing the parameters of the benefit formula. For example, reducing the multiplication factors used to translate average indexed monthly earnings into the primary insurance amount would lower initial benefits for any recipient, as each dollar of lifetime average earnings would make a smaller contribution to initial benefits. Moreover, changes to the multiplication factors can be done in such a way as to enhance the progressivity of the benefit formula by making larger proportional reductions to the factors that apply to higher levels of AIME, as this would imply that the reduction in the contribution of AIME to benefits would be largest for workers with high average lifetime earnings. For instance, a reform plan proposed by Peter Diamond and Peter Orszag includes a reduction in the top multiplication factor in the PIA formula from 15 percent to 10 percent; this would reduce benefits for an individual with an AIME level greater than greater than the second bend point (131 percent of the average wage in the year the individual turned 60) and would have lowered benefits for roughly the top fifth of new retirees in 2007. Likewise, the Nonpartisan Reform Plan proposed by Jeffrey Liebman, Maya MacGuineas, and Andrew Samwick calls for cutting the top and middle factors in half (from 15 percent and 32 percent to 7.5 percent and 16 percent, respectively), while the bottom PIA factor would only be reduced by a quarter (from 90 percent to 67.6 percent).

An assessment of whether the adjustments to the benefit formula in a particular reform plans result in a more progressive Social Security system depends on an analysis of a complete proposal that makes Social Security permanently solvent. This would include not only benefit adjustments, but also revenue changes and any benefits payable from potential personal retirement accounts. The Diamond-Orszag and Liebman-MacGuineas-Samwick plans contain elements in addition to benefit adjustments—such as increases in the maximum taxable earnings base (both plans) and personal retirement accounts (the latter only)—that will affect Social Security's overall progressivity.

Under the current-law benefit computation, new initial retirement benefits for successive birth cohorts tend to grow at the same rate as economy-wide average wages. Over time, nominal wage growth will tend to outpace price inflation: The growth rate of real wages (wages adjusted for price changes) tends to be positive, as productivity gains result in a higher real wage. Hence, one way to reduce the growth of benefits involves modifying the benefit computation so that new benefit awards for successive birth cohorts tend to grow with *prices* rather than with wages. This reform proposal is known as *price indexing*.

Labeling this strategy for reducing the benefit growth rate as "price indexing" is confusing in that it incorrectly suggests that the procedures for calculating benefits under current law that employ wage indexation would be modified to use price indexation instead. In fact, all aspects of current law that rely on wage indexation would be unchanged under price indexing. What *would* change is that benefits as defined by current law would be multiplied by the ratio of economy-wide average real wages in a base year to economy-wide average real wages in the year the individual turns 60—that is, benefits would simply be scaled down by the amount by which nominal wages have outpaced prices. 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 future benefits from scheduled 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.

For example, consider two people, A and B, whose wages in each year of working life are equal to economy-wide average wages and who retire and collect benefits at the same age. If A is a member of the 1925 birth cohort and B is a member of the 1930 birth cohort, then under current law B's benefit would be 25 percent higher than A's benefit, where 25 percent represents the growth in economy-wide average wages during the five-year period that extends from 1985 (when A is age 60) to 1990 (when B is age 60). Alternatively, if price indexing had been in effect for these two birth cohorts, B's benefit would have been 21 percent higher than A's, where 21 percent represents the growth in *prices* between 1985 and 1990. These same calculations would apply if A and B were at any other point in the relative distribution of wages for their respective birth cohorts; for example, if they each earned 1-1/2 times economy-wide average earnings in each year of their working lives.

As was discussed in Treasury's second and third issue briefs, the within-generation fairness of a set of reforms can be assessed with reference to the effect that it has on 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. Social Security is progressive to the extent that the lifetime net benefit rate declines with the level of lifetime wages earned.

Because price indexing is an across-the-board proportional benefit reduction for each birth cohort, with the proportional reduction becoming ever larger for successive birth cohorts, making Social Security permanently solvent with price indexing alone would cause Social Security to become increasingly less progressive over time. This occurs because current-law scheduled benefits as a share of lifetime wages are larger the lower are lifetime wages, so a given proportional reduction in benefits from current-law levels represents a larger share of lifetime wages for a low-wage worker than for a high-wage worker.

Under current law, benefits of successive birth cohorts tend to grow at the same rate as economy-wide average wages. As noted above, these scheduled benefits cannot be paid under current law. Nevertheless, in the long run benefits would be expected to grow at the same rate as average wages under a reformed defined-benefit-only system that is fair, permanently solvent, and has a constant payroll tax rate. Taxes paid by successive birth cohorts in such a system grow with wages, so intergenerational fairness implies that benefits likewise would grow with wages once a reduction in benefits (compared to what was scheduled but not payable) that acheives solvency has fully phased in.

Under price indexing and an unchanging payroll tax rate, the real present value of lifetime benefits for successive birth cohorts would tend to grow only because of increasing longevity (at about 0.2 percent per cohort) while the real present value of taxes paid into Social Security would grow at the same rate as real wages (1 percent or more per cohort). Maintaining price indexing indefinitely, therefore, would result in a declining lifetime net benefit rate for successive cohorts (benefits would be rising less rapidly than taxes), a situation that most would view as being unfair to distant future generations.

As a result, price indexing can be thought of as providing a way to *transition* to lower benefits so as to help make Social Security permanently solvent. This is why, when price indexing was examined in Treasury's third issue brief, price indexing was assumed to be in place only between 2009 and 2036. To obtain a fair reform plan, price indexing was then combined with an additional reform that scaled down the benefit formula to offset the effect of increasing longevity ("longevity indexing") after 2036. It is only during the first 28 years of the reform when pure price indexing is in effect that the lifetime net benefit rate by birth cohort declines; after that time, longevity indexing serves to maintain an unchanging lifetime net benefit rate.[5]

Some critics of the current-law benefit calculation point out that it yields an AIME that is larger than it would be if it were simply computed as an average of real wages earned, and conclude that benefits are therefore "too high" in some sense. But this conclusion is not correct, because the PIA formula is itself calibrated to how the AIME is computed. Suppose, for example, that the AIME as currently computed is x percent higher on average than if it were instead computed as the simple average of real earnings (as would result if wages were indexed to prices when computing the AIME). In this case, imagine an alternative system in which the AIME is the simple average of the highest 35 years of earnings and the PIA formula is as depicted in Figure 1 except that the bend points as a share of the average wage are x percent smaller and the PIA multiplication factors are all x percent larger. Then benefits would be the same on average under this alternative system as they are under current law: AIME levels would be smaller than they are under current law, but recalibrating the PIA formula to take account of the new lower AIME levels would cause benefits to be the same on average.[6]

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5 As was noted in Treasury's third issue brief, this plan was intended to be used for illustration only.

6 While benefits under this scheme would be the same on average as they are under current law, there would be distributional consequences—in particular, wage indexing puts relatively more weight on early-life earnings in the AIME calculation than does price indexing.

Moreover, this argument makes clear that the reliance on wage indexation under current law does not cause the benefits of successive birth cohorts to grow at the same rate as wages. This would remain true in the event that the AIME were calculated using price indexing rather than wage indexing

To reinforce these points, imagine another possible benefit calculation. Suppose the AIME were calculated as the hypothetical account balance that would result if payroll taxes were invested at some fixed rate of return, and consider individuals who pay taxes at a 10.6 percent rate for exactly 35 years. If the annual rate of return credited to the hypothetical account were equal to the annual rate of economy-wide wage growth, it turns out that the resulting account balance would be close to 45 times the current-law AIME for all such individuals. If in addition the PIA bend points were made larger by a factor of 45 and the PIA multiplication factors were all made smaller by a factor of .022 (= 1 ÷ 45), then benefits in this alternative system would be close to current-law levels.[7]

Wage indexing is also used to update the PIA formula each year. In Figure 1, the bend points are constant as a share of economy-wide average wages in the year the cohort is age 60, which means that the bend points in absolute dollars are growing at the same rate as economy-wide average wages—the bend points are indexed to average wages. This is necessary in order to maintain Social Security's progressivity. If the bend points were not indexed, then the share of AIMEs that receive the advantage of the high PIA multiplication factors would decline over time. Indeed, if the benefit formula were neither regressive nor progressive by wage level, there would be only one PIA multiplication factor and no bend points to index.

Progressive price indexing is a modification of the price indexing proposal that preserves and possibly even enhances Social Security's progressivity.

Like pure price indexing, progressive price indexing represents a modification to Social Security's PIA formula. It is therefore not fundamentally different from other reforms that reduce the rate of growth of defined benefits; it only implements the reductions in a particular way. Specifically, while most other plans simply dictate specific reductions in the PIA multiplication factors in specific years, progressive price indexing ties the reductions to the evolution of average economy-wide real wages. Given a path of economy-wide real wages, therefore, it would be possible to exactly mimic the effects of progressive price indexing on benefits by making direct adjustments to the parameters of the benefit formula.

Figure 2 plots the PIA formula that would result under progressive price indexing for the 28th birth cohort subject to this proposal under the assumption that economy-wide average real wages grow at an annual rate of 1.1 percent. For comparison, the figure also includes the PIA formula under current law and under pure price indexing (again for the 28th birth cohort subject to pure price indexing). The 28th cohort is chosen for this illustration because it is the last cohort subject to pure price indexing under the illustrative reform plan in Treasury's third issue brief (which involves pure price indexing between 2009 and 2036 and longevity indexing after 2036).

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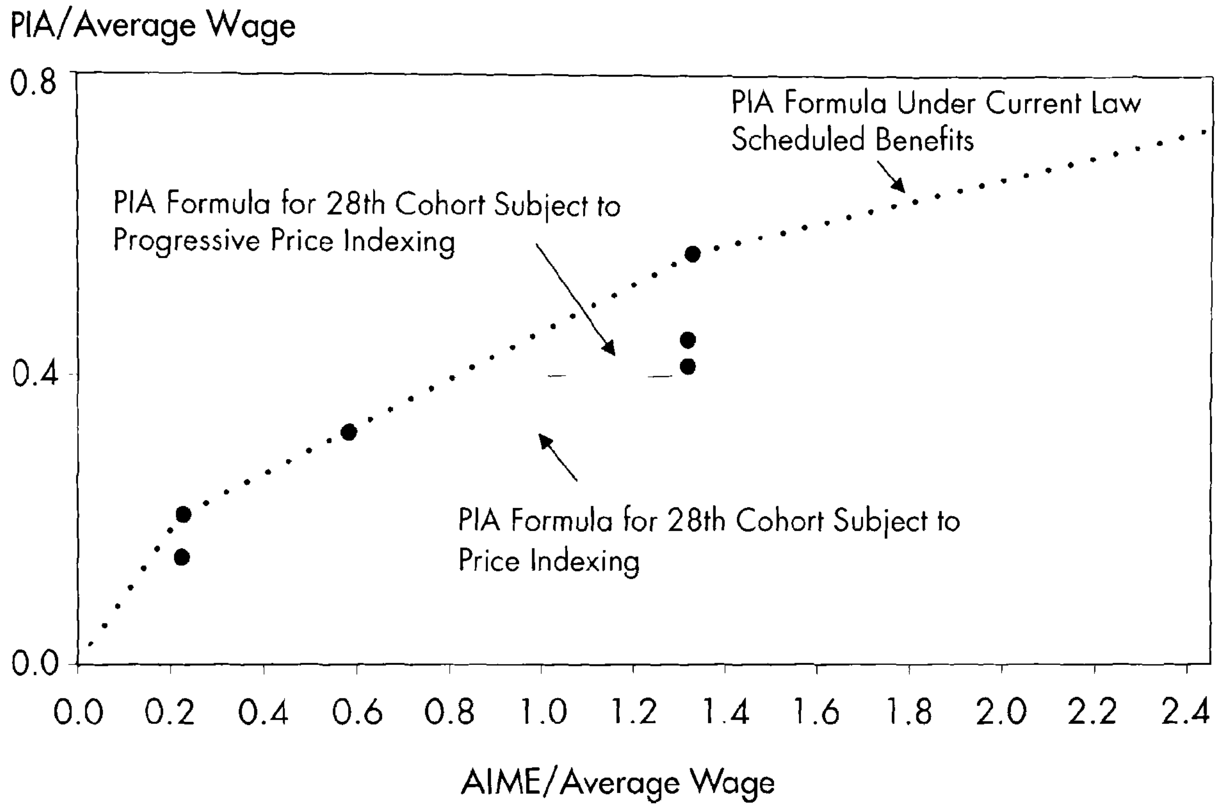
7 Benefits in this alternative system would not be exactly the same as they are under current law for two reasons. First, the hypothetical account balance would increase if taxes were paid for more than 35 years. Second, current law indexes only wages earned prior to age 60, which corresponds to a hypothetical account that receives no interest credit after age 60.

Figure 2: Primary Insurance Amount Formula



Source: Department of the Treasury

Under pure price indexing, the PIA multiplication factors become smaller at the rate of 1.1 percent per year (the rate of growth of real wages), or 26 percent in total over 28 years. Reducing all multiplication factors by 26 percent reduces everyone's benefit by 26 percent relative to current-law scheduled benefits. Under progressive price indexing:

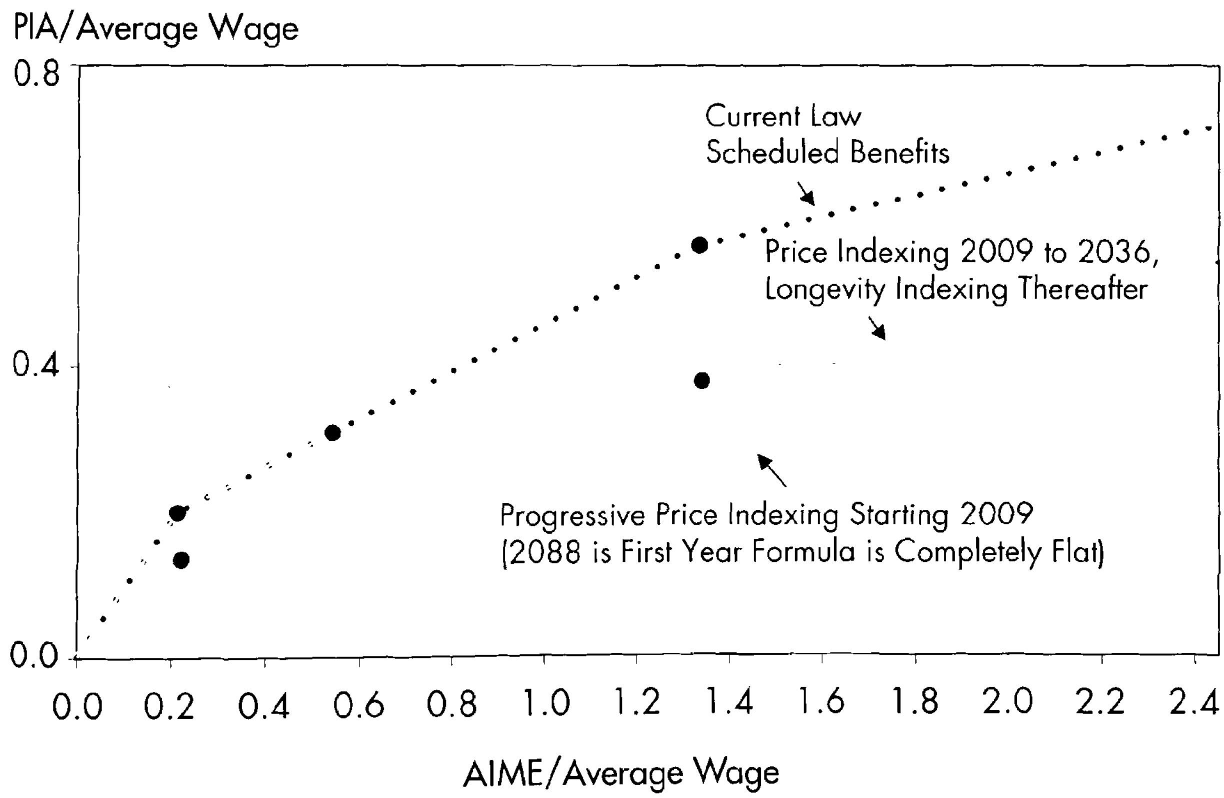
- A third PIA bend point is introduced between the first and second current-law bend points (at an AIME level equal to 57 percent of the average wage);
- The PIA multiplication factors for the first two AIME regions are held fixed at their current-law levels (0.90 and 0.32, respectively); and,
- The PIA multiplication factors for the third and fourth AIME regions (initially set equal to 0.32 and 0.15, respectively) are both reduced proportionately so that an individual with maximum taxable earnings in 35 or more years (a "maximum" earner with AIME about 2.4 times as large as average earnings) receives the same benefit as would result under pure price indexing.

Relative to pure price indexing, progressive price indexing leads to higher real benefits over time for everyone except the less than one percent share of workers who are maximum earners. The bottom 30 percent of earners will not see changes in benefits from what is now scheduled. In between the bottom 30 percent and the top one percent, the reduction relative to scheduled benefits is larger as earnings rise so that people with higher lifetime earnings will bear more of the burden of reform than people with lower lifetime earnings. Progressive price indexing thus results in a more progressive benefit formula than pure price indexing.

The retirement benefits of the bottom 30 percent of earners would not be changed from what is now scheduled because it is estimated that 30 percent of recent new-benefit awards are to workers with an AIME level that is below the second bend point of the PIA formula under progressive price indexing. Hence, assuming the distribution of real wages across birth cohort members will remain about unchanged, progressive price indexing maintains current-law scheduled benefits for roughly the lowest 30 percent of workers, and reduces benefits relative to their current-law scheduled levels for about the top 70 percent of earners.

As with pure price indexing, progressive price indexing is a means of phasing in a reduction in benefits (relative to what is scheduled but not payable) so as to help make Social Security permanently solvent. There is a limit, however, to how long progressive price indexing can be left in place without problematic consequences arising. If annual real wage growth were to average 1.1 percent, for example, this limit turns out to be 80 years. In that year, the PIA formula shown in Figure 3 is flat for levels of AIME that are greater than the second bend point. If progressive price indexing were continued after 80 years, the PIA would actually decline as AIME rises beyond the second bend point. Many would view this as an unacceptable outcome because it implies that increases in average indexed monthly earnings past the second bend point would actually result in a lower Social Security benefit.

Figure 3: Primary Insurance Amount Formula For Cohort Turning 62 in 2088



Source: Department of the Treasury

When the PIA formula becomes flat for levels of AIME above the second bend point, all workers whose AIME falls in this region of the benefits formula (about 70 percent of workers under current projections) would receive the same benefit despite the fact that the present value of lifetime payroll taxes paid tends to be higher the higher is one's AIME.[8]

After progressive price indexing has run its course, one possibility would be to leave the PIA formula (shown in Figure 3) unchanged except that benefits would be reduced proportionately for successive birth cohorts so as to offset the effect of increasing longevity on the value of lifetime benefits. Unfortunately, this plan—progressive price indexing plus longevity indexing—would not make Social Security permanently solvent. Over 75 years, this plan has been estimated to close about 80 percent of Social Security's financial shortfall.[9] Those estimates show Social Security's deficit in the 75th and final year of the projection period equaling about 1.1 percent of covered payroll, or 7 percent of benefits paid. If the imbalance in all later years were to persist at 1.1 percent of covered payroll, which is a reasonable assumption given that longevity indexing would be in place, then the infinite-horizon imbalance would also be reduced by about 80 percent.

Why progressive price indexing cannot by itself make Social Security permanently solvent can be understood by considering the lifetime net benefit rate by birth cohort. As was explained in Treasury's first issue brief, current and future workers must pay into Social Security about $13.6 trillion more than they get back in benefits in order to finance the net benefits (benefits less taxes) that the system has paid or promised to earlier birth cohorts. The implication is that making Social Security permanently solvent requires that the lifetime net benefit rate be substantially negative for current and future workers.

Figure 4 shows estimates of the lifetime net benefit rate by birth cohort under progressive price indexing plus longevity indexing, as well as under pure price indexing plus longevity indexing (which was judged to be about permanently solvent in Treasury's third issue brief). The fact that the plan with progressive price indexing conveys a larger lifetime net benefit rate for all cohorts subject to reform (henceforth, the "reform cohorts") implies that it levies less net tax from reform cohorts than does the plan with pure price indexing. This reflects the fact that progressive indexing involves a smaller reduction in scheduled benefits for nearly all retirees than pure price indexing—the 30 percent of earners at the bottom would see no change at all, while nearly all of the rest would have a smaller reduction than under pure price indexing. Hence, if the plan with pure price indexing is just solvent, the plan with progressive price indexing must be less than solvent.

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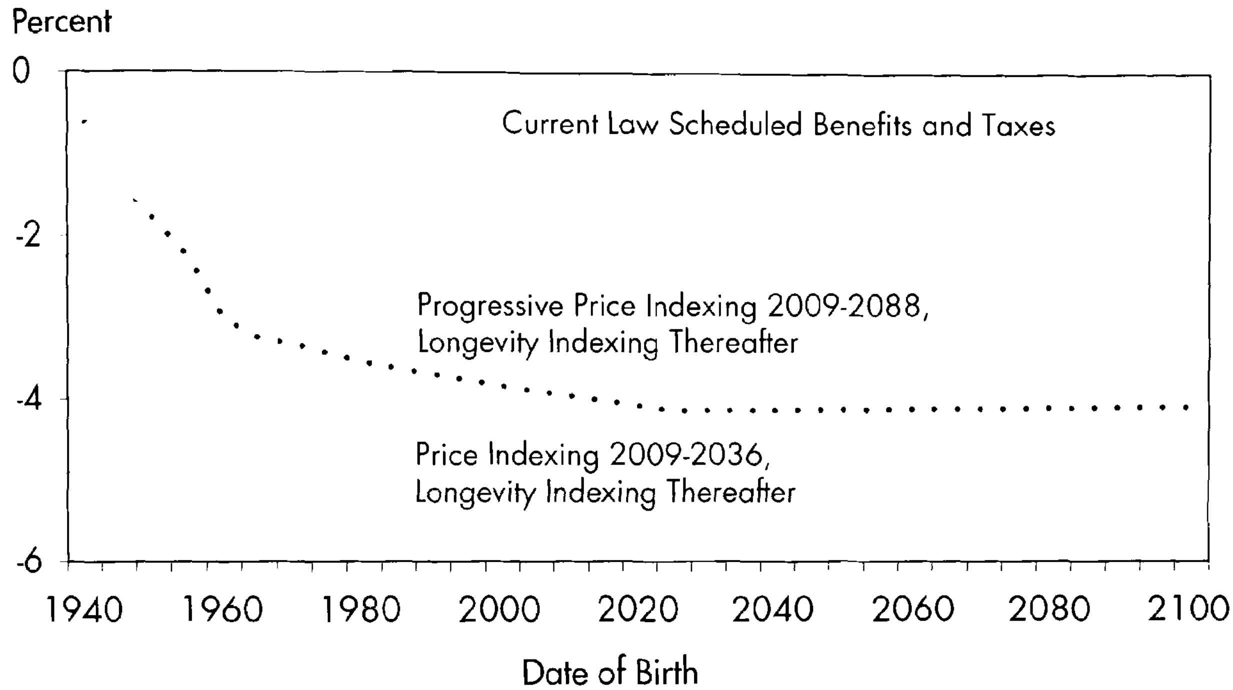
8 The present value of lifetime taxes paid would tend to be proportional to AIME if there were no systematic relationship between average lifetime earnings and the timing of earnings over working life. Alternatively, if people with relatively high lifetime earnings tend to earn a relatively larger portion of those earnings late in life, then the present value of lifetime payroll taxes would increase less than proportionately with the AIME. In either case, there would be a positive association between AIME and the present value of taxes paid.

9 Social Security's score of progressive price indexing beginning in 2012 is at http://www.ssa.gov/OACT/solvency/provisions/benefitlevel.html. The scoring assumes progressive indexing of both retirement benefits and disability benefits. If progressive indexing were applied to only retirement benefits, it would close less of Social Security's financial shortfall.

Figure 4: OASI Lifetime Net Benefits As Percent of Lifetime Wages (Lifetime Net Benefit Rate) by Birth Cohort



* Estimates include only OASI payroll taxes and benefits. OASI taxes on benefits are not included.

Source: Department of the Treasury

Both of these plans result in a lifetime net benefit rate that is flat in the long run, which many would consider fair. Moreover, the long-run lifetime net benefit rate is about the same under either plan. What makes the plan with progressive price indexing less potent is its relatively slow phase-in: The first cohort subjected to the full brunt of reform is the 2026 birth cohort, while the 1974 birth cohort is fully subject to reform under the plan with pure price indexing.

Could the plan with progressive price indexing be modified to make it permanently solvent by phasing in its benefit reductions more rapidly? For example, one could imagine accelerating the evolution of the PIA formula by doubling the rate at which the PIA multiplication factors were reduced, in which case the PIA formula changes would be complete in the 40th year of the reform rather than after 80 years. However, this would lead to declining real benefits levels for successive cohorts of workers in much of the upper part of the wage distribution in future birth cohorts. For example, consider a maximum earner. If average real wages were to grow 1.1 percent annually, real benefits for a maximum earner would decline at a 1.1 percent rate for the first 40 reform cohorts and would then increase at a 0.9 percent annual rate (the assumed growth rate of real wages less 0.2 percentage point per year for longevity indexing) for later cohorts. A similar but less severe pattern would be evident for other earners in the upper part of the wage distribution. As a result, a more rapid phase in of progressive price indexing would require reductions in actual real benefit levels between successive cohorts over much of the income distribution—an outcome not envisioned in most Social Security reform proposals.

A plan with progressive price indexing would naturally phase in more rapidly if real wage growth were more rapid. For example, if real wage growth were to average 2 percent per year rather than 1.1 percent, the plan would be completely phased in after 44 years rather than after 80 years. Even in this unlikely event, however, the plan would not phase in as rapidly as a plan with pure price indexing, and so would not achieve permanent solvency.[10]

Because progressive price indexing cannot by itself make Social Security permanently solvent, it is not a complete plan and hence cannot be fully evaluated with respect to fairness and benefit adequacy. Before any such evaluation can be done, it would be necessary to specify the additional reforms that would be combined with progressive price indexing to make Social Security permanently solvent. Again, however, a key point to note about progressive price indexing is that it represents a way to adjust benefits that is quite similar to the approaches used in other reform plans.

There is widespread agreement that any reform to Social Security will involve adjustments to reduce benefits relative to what is currently scheduled but unpayable, and that these adjustments will fall relatively more heavily on high-income workers. There is likewise a consensus that workers with low lifetime earnings will be shielded from the burden of reform. While there are many ways to implement progressive benefit adjustments of this sort, the essential mechanics of any benefit adjustment are the same. In some proposals these mechanics are obvious because they make specific adjustments to the parameters of the benefit formula. It is less obvious—but no less true—for reform proposals such as progressive price indexing, where adjustments to the parameters of the benefit formula are tied changes to to economic variables such as wage and price growth.

While progressive benefit adjustments will represent an important component of some future reform plan, they are unlikely to be the entire plan—that is, progressive adjustments to benefits will be combined with other reforms. Because these other reforms can also influence Social Security's overall progressivity, a meaningful assessment of the effect that proposed changes to benefits would have on Social Security's fairness across and within generations will need to specify those additional reforms.

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10 The effect of real wage growth on real benefits while progressive price indexing is in effect can be understood with reference to three earnings groups: maximum earners, earners with AIME levels that are less than or equal to the second bend point, and earners with AIME levels that fall between the second bend point and the maximum AIME. Higher real wage growth has no effect on the absolute real benefits received by a maximum earner of any given birth cohort, but the real benefit expressed as a share of the average real wage will be smaller the higher is real wage growth. For earners with AIME levels that are less than or equal to the second bend point, absolute real benefits increase in lockstep with real wages, so the real benefit as a share of average real wages is unaffected. For earners with AIME levels that are between the second bend point and the maximum AIME, higher real wage growth increases real benefits, but the proportionate increase is less than the proportionate increase in real wages. Hence, higher real wage growth increases real benefits of all workers except maximum earners, but real benefits as a share of average real wages fall on average. And because real payroll taxes are proportional to real wages, higher real wage growth in any given year that progressive indexing is in effect will act to improve Social Security's long-term finances.

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 26, 2008
HP-1058

Testimony of Treasury Benefits Tax Counsel Thomas Reeder before the House Ways and Means Subcommittee on Select Revenue Measures on Individual Retirement Arrangements

Washington, DC--Chairman Neal, Ranking Member English and Members of the Committee, I appreciate the opportunity to appear today to discuss the issue of individual retirement arrangements (IRAs) and their vital role in generating and maintaining retirement savings of American workers and their beneficiaries.

Background

IRAs are available to all Americans with compensation income (including net earnings from self-employment involving personal services). Certain tax preferences of IRAs, however, are dependent on the individual's level of income and whether the individual is covered by an employer-sponsored retirement plan. There are several types of IRAs, including traditional deductible IRAs, traditional nondeductible IRAs, and Roth IRAs. In addition, there are special types of IRAs available in the employment context referred to as SEP IRAs and SIMPLE IRAs.

Individuals under age 70½ may make contributions to a traditional IRA, subject to certain limits. The contributions are generally deductible. The deduction is phased out, however, 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 (1) (AGI) between $53,000 and $63,000, for married couples filing jointly with AGI between $85,000 and $105,000, and for married couples filing separately with AGI between $0 and $10,000. For a married individual filing jointly who is not covered by an employer-sponsored plan, but whose spouse is covered, the deduction is phased out between $159,000 and $169,000 in AGI. IRA earnings are not includible in gross income until distributed. Distributions (including both pre-tax 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, a taxpayer under age 70½ may make nondeductible contributions. 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 with sufficiently low income 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 AGI between $101,000 and $116,000, for married couples filing jointly with AGI between $159,000 and $169,000, and for married couples filing separately with 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. Distributions from Roth IRAs prior to age 59½ or before the individual has had a Roth IRA for 5 years are included in income to the extent they exceed basis, unless the distribution is on account of death or disability or, for an amount up to $10,000, for a first-time home purchase. 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 price inflation after 2008. Individuals age 50 and over may make an additional "catch-up" contribution of up to $1,000.

Taxpayers (other than married taxpayers who file separately) with AGI of $100,000 or less can convert a traditional IRA to a Roth IRA. In general, the conversion amount is included in gross income (but not for purposes of determining eligibility to convert). 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 elect to delay half of the income inclusion resulting from the conversion to 2011 and the other half of the income inclusion to 2012. Conversions made on or after January 1, 2011 will result in the full amount of the converted amount not previously included in taxable income to be included in they year of the conversion.

Distributions from traditional IRAs prior to age 59½, or from Roth IRAs prior to age 59½ or 5 years after the first Roth contribution, are generally subject to an additional 10 percent income 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 to another IRA, or if the distribution is made in the case of death or disability, certain medical expenses, first-time homebuyer expenses, qualified higher-education expenses, health insurance expenses of unemployed individuals, to a qualified reservist, or as part of a series of substantially equal periodic payments.

Beginning at age 70½, minimum distributions gauged to life expectancy of the IRA holder (or the joint life expectancy of the IRA holder and beneficiary) must be taken from a traditional IRA. Roth IRAs are not subject to minimum distribution rules during the account owner's lifetime.

Employers with 100 or fewer employees and no other retirement plan may establish SIMPLE IRAs. Unlike traditional IRAs, participants may defer up to $10,500 and 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 nondiscrimination tests applicable to most other employer-sponsored retirement savings plans, SIMPLE IRAs are subject to special contribution rules, including a lower annual elective deferral limit and either a matching employer contribution for each employee up to 3 percent of compensation (which may be reduced to 1 percent under certain circumstances) or non-elective contribution of 2 percent of all eligible employees' compensation.

An employer may contribute to its employees' IRAs under a simplified employee pension (SEP). Under a SEP, the employer must contribute to all employees' IRAs in the same percentage (with certain exceptions). Employee contributions to SEPs are not permitted, except with respect to grandfathered salary reduction SEPs that were in existence on December 31, 1996.

An employer may also establish payroll deduction IRAs under which employees may elect to have a portion of their pay contributed to a traditional or Roth IRA in any amount up to the annual limits for individual traditional or Roth IRAs (plus the catch-up amount, if applicable). Like a SIMPLE IRA, these may be set up on an automatic basis. That is, the employee may be deemed to elect to participate in the program at a certain level unless the employee affirmatively elects not to participate or to participate at a different level. Although a payroll deduction IRA is essentially the same as an individual IRA, there are tremendous advantages to the payroll deduction process. It is generally accepted that employees are more likely to save if the amounts are automatically diverted to an IRA before they reach the employee's hands or checking account.

In summary, IRAs provide a valuable long-term savings tool. They are particularly valuable to those individuals who do not have access to other employer-sponsored savings plans and they are quite useful as a portable entity into which employees can combine the retirement savings they amass over their working careers. With all their retirement assets in a single trust or custodial account, employees can more efficiently and cost-effectively diversify their investments and otherwise manage their retirement savings.

Interpretive and Enforcement Authority over IRAs

The Treasury Department and the Internal Revenue Service (IRS) generally have interpretive and enforcement authority over the establishment and operation of individual IRAs and payroll deduction IRAs. The Employee Benefits Security Administration (EBSA) of the Department of Labor, however, has jurisdiction over various aspects (including fiduciary and disclosure requirements) of SEP IRAs and SIMPLE IRAs, as well as certain payroll deduction IRAs that entail such employer involvement that they constitute an employee benefit plan under Title I of the Employee Retirement Income Security Act of 1974. EBSA also has jurisdiction with respect to the interpretation of the prohibited transaction rules applicable to IRAs and has statutory authority to issue individual and class exemptions from the prohibited transaction rules for transactions involving IRAs. (2)

Treasury Department Activities Promoting Employer-Sponsored Savings Programs

The Administration has long been concerned that the rules of employer retirement savings plans are unreasonably complicated. This 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, this complexity discourages many employers from offering a plan at all. This is especially true of small employers, which employ a majority of American workers. Complexity is commonly cited as a reason the coverage rate of employer-sponsored plans has not grown above about 50 percent overall and has remained under 25 percent among employees of small firms. Thus, the Administration is dedicated to reducing the complexity through proposed legislation and providing tools for employers – especially small employers – to use in creating and administering plans.

The Administration continues to be dedicated to educating employers about retirement plan options. Although most large employers sponsor workplace retirement savings programs, such as 401(k), 403(b), or 457 plans, many small employers lack the knowledge or resources to adopt these plans. Along with the Department of Labor, the Treasury Department and the IRS have taken significant steps to publicize the advantages of employer-sponsored IRA-based savings programs and to educate employers and individuals on the ease of setting them up. For example, the IRS has developed model plan documents for SIMPLE IRAs and SEPs and has created the following publications:

- *Retirement Plans for Small Business* (SEP, SIMPLE, and Qualified plans) (Publication 560)
- *Individual Retirement Arrangements* (Publication 590)
- *Choosing a Retirement Solution for Your Small Business* (co-produced by the IRS and EBSA) (Publication 3998)
- *SEP Retirement Plans for Small Businesses* (co-produced by the IRS and EBSA) (Publication 4333)
- *SIMPLE IRA Plans for Small Businesses* (co-produced by the IRS and EBSA) (Publication 4334)
- *SIMPLE IRA Plan Checklist* (Publication 4284)
- *SEP Checklist* (Publication 4285)
- *Have you had your checkup this Year? For SIMPLE IRAs, SEPs and Similar Retirement Plans* (Publication 4405)

In addition to these publications, the IRS operates an extensive on-line resource for IRA-based retirement plans for small employers, "The IRA Online Resource Guide," which is also available as a CD-ROM. There is also video entitled "How to Set up a Retirement Plan for Yourself and Your Employees" available on the IRS online classroom site for small businesses (www.irs.gov/businesses/small). Of particular note is the Retirement Plan Navigator geared to small employers (http://www.irs.gov/pub/irs-tege/online_navigator.pdf), which includes a video and leads small employers through the process of choosing a type of plan and goes through the process of adopting and maintaining the plan.

The Employee Plans division of the IRS participated in over 300 events last year throughout the country, many of which are directed at small employers and their advisors. The IRS has partnered with various groups, including the United States Chamber of Commerce, the National Federation of Independent Business, and the Small Business Administration, in putting together materials and events for small employers.

One of the key features that makes employer-sponsored IRAs attractive to small employers with limited resources is the fact that the employer is not required to file annual reports with the Department of Labor or the IRS. This feature, however, makes it more difficult to determine precisely how many employers are adopting them and how many employees participate. Requiring more reporting would make it harder for employers with limited administrative resources to adopt employment-based IRA programs. But the IRS has data on the level of individual contributions and year-end account balances because those data are reported to the IRS by the IRA custodian. In 2004, contributions were made to the SEP IRAs of 1.6 million taxpayers in an amount of $13.8 billion, or approximately $8,625 per taxpayer. This amount was 28.2 percent of all IRA contributions in 2004. Contributions were made to the SIMPLE IRAs of 1.9 million taxpayers, in the amount of $7.6 billion, or about $4,000 per taxpayer. This amount was 15.6 percent of all IRA contributions in 2004. As of the end of the 2004, 3.5 million taxpayers held $169 billion in SEP IRAs and 2.5 million taxpayers held $34 billion in SIMPLE IRAs. This difference is likely due to the fact that SEP accounts are very common in businesses in which only the owner participates, have much higher contribution limits than SIMPLE IRAs, and have been in existence much longer than SIMPLE IRAs. (3)

Legislative Proposals

Because the Administration has been concerned about the hurdles employers face in trying to establish savings plans for their employees, the Administration's Budget has included for the past several years a proposal (the "Employer Retirement Savings Account" or ERSA) to combine the various types of employer-sponsored savings plans into a single type of plan (with simplified administrative rules for small employers). Of course the Administration would be open to other proposals that decrease the complexity or administrative burden on small employers that want to provide savings opportunities for their employees.

While the Treasury Department and the IRS have been promoting employer-sponsored retirement savings programs and developing new ideas to make plan sponsorship easier, we are concerned about imposing mandatory requirements that could affect the ability of an employer, particularly a small employer, to run its business efficiently and compete effectively in its marketplace. Operating a business already involves a significant amount of investment (typically the employer's time and money) and adding yet another stringent requirement could have an adverse effect, particularly on small employers, which are an essential sector of America's economy. Moreover, mandating a particular benefit on small employers, particularly to the extent such benefits imposes a significant cost on the employer, could affect the employer's decision to offer other employee benefits that may be more relevant for the employer's workforce, particularly health coverage.

Finally, we should not lose sight of the fact that IRAs generally are not as powerful of a retirement savings tool as other tax-qualified retirement plans, such as 401(k), 403(b) and other defined contribution plans and defined benefit plans. This is primarily because the restriction on pre-retirement distributions in such plans avoids much of the pre-retirement leakage that occurs in IRAs. We should not encourage employers to adopt IRA programs if they are instead willing and able to adopt these more sophisticated and flexible retirement plans to benefit their employees.

Conclusion

Mr. Chairman and Members of the Committee, thank you for the opportunity to appear today, and I will be happy to respond to any questions.

(1) Modified adjusted gross income for this purpose is adjusted gross income 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.

(2) For example, if a non-exempted prohibited transaction occurs, under rules enforced by the IRS, an excise tax would apply. If the prohibited transaction involves the IRA-owner or a beneficiary of the IRA, the balance in the IRA would be subject to income tax.

(3) SEPs have been available since 1979, while SIMPLE IRAs have been available only since 1997.

ss ROOM

June 26, 2008
2008-6-26-13-40-29-10636

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 $74,508 million as of the end of that week, compared to $74,160 million as of the end of the prior week.

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

	June 6, 2008		
A. Official reserve assets (in US millions unless otherwise specified)	Euro	Yen	Total
(1) Foreign currency reserves (in convertible foreign currencies)			74,508
(a) Securities	16,192	12,138	28,330
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	15,153	5,986	21,139
(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	9,752		
(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 (-)		-62,000	-62,000		
(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	
(c) 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)	74,508
--currencies in SDR basket	74,508
--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.

4/ The short positions reflect foreign exchange acquired under reciprocal currency arrangements with certain foreign central banks. The foreign exchange acquired is not included in Section I, "official reserve assets and other foreign currency assets," of the template for reporting international reserves. However, it is included in the broader balance of payments presentation as "U.S. Government assets, other than official reserve assets/U.S. foreign currency holdings and U.S. short-term assets."

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 26, 2008
HP-1059

Fiscal Assistant Secretary Kenneth E. Carfine Testimony Before the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information Federal Services, and International Security

Washington – Mr. Chairman and Members of the Subcommittee:

Thank you for inviting me to this hearing to discuss the Financial Report of the United States Government (Financial Report) for Fiscal Year 2007. Your interest in improving Federal financial management and, in particular, fiscal sustainability is appreciated. The Financial Report, incorporating the consolidated government-wide financial statements, is designed to report on the financial position and condition of the federal government pursuant to generally accepted accounting principles (GAAP).

The Financial Report reflects Treasury's long-standing responsibility to provide the Congress and the public with timely, reliable, and useful information on the cost of the government's operations, the sources used to fund them, and the implications of the government's financial commitments. It is designed to encompass and does substantially cover the financial results of all three branches of the federal government. Treasury constantly strives to improve the utility and value of the Report as well as the process by which it is produced.

This year, all 24 CFO Act agencies published their audited financial statements by November 15, and we issued the government-wide Report approximately a month later on December 17. These timely submissions are evidence that both the Federal agencies and Treasury continue to improve their systems and processes. As I will discuss, these improvements notwithstanding, due to long-standing material weaknesses, the Government Accountability Office again issued a disclaimer of opinion on most of the statements in the Financial Report. However, this year's report brings with it two significant achievements: 1) an unqualified audit opinion on the Statement of Social Insurance and 2) the issuance of a Citizen's Guide to the Report.

Highlights from the Financial Report

As Treasury and OMB reported in October, for Fiscal Year 2007, revenues increased to a record level of $2.6 trillion--an 8 percent increase over the previous fiscal year. Consequently, the 2007 federal net operating cost of $276 billion was better than anticipated and was a significant improvement over the 2006 net operating cost of $450 billion.

The Government's balance sheet shows that its liabilities exceed its assets by more than $9 trillion dollars. Much of this difference is attributed to: 1) the government's debt to the public of more than $5 trillion and 2) another nearly $5 trillion in anticipated federal employee and veterans postemployment benefits and commitments for which funding (i.e., employee and employer contributions) has not yet been obtained. The Statement of Net Cost presents cost by agency.

Because the Budget Deficit is such a well-publicized and generally-accepted figure, we provide two statements that facilitate the comparison and reconciliation of the government's activity.

The Reconciliation of Net Operating Cost and the Unified Budget Deficit statement ties the more widely recognized budget results (e.g., $163 billion unified budget deficit) to the government's net operating cost of $276 billion.

The budget deficit and net operating cost differ because the government uses a different basis of

accounting for each. The budget is prepared generally on a cash basis, which more appropriately pertains to the inflow and outflow of funds during the fiscal year, regardless of the amount or nature of the transaction. By comparison, the government's audited financial statements are prepared generally on the accrual basis pursuant to GAAP promulgated by the Federal Accounting Standards Advisory Board. Accrual accounting recognizes revenues when earned--not necessarily collected; and expenses when incurred--not necessarily expended. The bulk of this difference is due to the inclusion of actuarial increases in both federal employee pension and health liabilities, and environmental liabilities in net operating cost, but not in the budget deficit.

The Report also contains a Statement of Social Insurance (SOSI), which shows the present value cost of the government's exposures of its social insurance programs, primarily Social Security and Medicare. As indicated earlier, the SOSI became the first and, to date, the only government-wide financial statement to receive an unqualified audit opinion from the Government Accountability Office (GAO).

The FY 2007 Report adds new information related to fiscal sustainability. It provides a discussion of the extent to which the government will be able to financially support its critical programs in the near and distant future. This discussion is largely based on the information contained in the SOSI as well as the government's stewardship report (which is drawn from the Social Security and Medicare Trustees Reports).

Regarding the Social Security program, an important milestone was reached this year when the first baby boomers began drawing retirement benefits from Social Security. The retirement of the baby boom generation will have a profound impact on the finances of Social Security and Medicare. There are currently 3.3 covered workers per Social Security beneficiary; that number will fall to 2.1 by 2034. Medicare faces the same demographic challenges as Social Security, but additionally must cope with the rapid expected growth in health care costs. While Social Security expenditures are expected to grow considerably over the next 75 years, from 4.3 percent of GDP in 2007 to 6.3 percent of GDP in 2081, Medicare's expenditure growth is expected to increase from 3.2 percent of GDP in 2007 to 11.3 percent of GDP in 2081.

From a government-wide perspective, Medicare obligations are expected to dwarf those of Social Security. The 75-year present value of projected Medicare expenditures less tax and premium revenue is $34 trillion (4.7 percent of the present value of GDP), rising to $36 trillion in the 2008 report, while the 75-year present value of projected Social Security expenditures less tax revenue is $4.7 trillion (0.6 percent of GDP).

The Financial Report shows that the Federal Government's current policies, particularly with respect to Social Security and Medicare, are unlikely to be sustainable. Total expenditures, including interest, are expected to grow to 50 percent of GDP by 2070 and 60 percent by 2080. Such spending levels have only been witnessed once before--during World War II, when Government expenditures reached a then-record high of 44 percent of GDP. If revenues in the future continue at the historical average level of 18 percent of GDP, they will barely cover 1/3 of total government expenditures and would not be sufficient to cover the net interest on the Government's debt.

The consequence of the projected growing gap between revenues and expenditures would be a rapidly-increasing debt-to-GDP ratio. By 2030, the need to fund government deficits will drive the debt-to-GDP ratio to 68 percent--far surpassing the non-wartime peak of 49 percent in 1993. By 2040, this ratio is projected to reach 128 percent, well above the World War II peak of 109 percent. Thereafter, the ratio of debt held by the public to GDP rises sharply to 300 percent by 2060, doubling again to 600 percent by 2080. A rapidly rising debt-to-GDP ratio creates uncertainty over the form of future government financing, portends adverse long-run consequences for the economy and could impact other countries' willingness to lend money to or invest in the United States.

As noted earlier, these are merely projections based on a myriad of assumptions that can change and alter the outlook. Yet, the projections provide an important signal about the difficulties that the Government faces in attempting to sustain current policies. The Government can neither reasonably grow into nor tax its way back to sustainability. Nor can it realistically expect to continue to borrow without incurring a substantial negative impact on the economy. Avoiding the consequences of this fiscal path will require actions to bring program expenditures in line with available resources. How soon those actions are taken will greatly influence their ultimate impact on the Nation.

Addressing the Auditor's Findings

For Fiscal Year 2007, GAO was unable to express an opinion on the financial statements, due to long-standing material weaknesses. I recognize that until our financial statements can withstand audit scrutiny, we will not benefit from the Report's full value in informing the Congress and the Public about the Government's fiscal position and condition.

We agree with GAO on the following three principal material weaknesses:

1. Serious financial management control issues at the Department of Defense,
2. The government's inability to properly eliminate transactions between agencies, and
3. The government's deficiencies in the process for preparing the consolidated financial statements.

GAO raised many valid points in its audit, and there is no one more than I who would like to see a "clean" audit opinion on the consolidated financial statements. Across government, we have been addressing the weaknesses relating to the elimination of intragovernmental balances and the report preparation process, and are making progress.

We concur with GAO that the out-of-balance condition, resulting from intragovernmental transactions, continues to represent a significant material weakness. This occurs when two agencies conducting business with each other as trading partners record and report the same transaction differently. We are addressing this issue in several ways:

- We have started requiring significantly greater detail from the agencies. In addition, we have developed tools to track the imbalances, identify the problems, analyze the data, and implement solutions. We have also formed inter-agency groups to examine each pair of related transactions to resolve the imbalances.
- Partnering with OMB, we developed a method and vehicle to report these inter-agency transactions throughout the government. Agencies use these reports, which are posted on the Web, to analyze their transactions and balances. We have also worked with OMB to develop a "watch list" of agencies with the largest intragovernmental differences.
- We worked with the CFO Council to develop new intragovernmental transaction "business rules," which are helping to bring about more consistent accounting among business partners. Finally, we require agency auditors to review the intragovernmental balances in the hope that greater auditor involvement will encourage agencies to accurately record these transactions and correct the imbalances.

These and other actions have reduced the differences in reporting intragovernmental transactions from $86 billion in FY 2006 to approximately $67 billion in FY 2007.

We continue to address the report preparation issues by developing and following corrective action plans, which include strategies for short-term and long-term solutions. At the beginning of this fiscal year, there were 81 outstanding recommendations from GAO for improving the internal controls over the report preparation process. This year, we closed out 35 recommendations relating to prior year's reports. Based on the audit of the 2007 report, GAO identified an additional 10 recommendations for improving the report preparation process bringing the current total recommendations to be resolved to 56. Our plan is to resolve 8 of the 10 new recommendations by the end of the fiscal year and continue to aggressively address the 46 prior years' findings and recommendations.

We have strengthened our report preparation processes, by enhancing our data collection systems to meet disclosure requirements prescribed by generally accepted accounting principles. We have also focused our attention and resources on improving and fully documenting our standard operating procedures to increase the efficiency and effectiveness of our processes. Additionally, we have continued to enhance and clarify our guidance to federal program agencies for accurate and complete information and to ensure consistency of agency information for the Financial Report.

The Federal Government's Financial Health: A Citizen's Guide

A common critique of the Financial Report of the U.S. Government is that, despite the fact that it contains more than 180 pages of detailed information on the government's financial position and condition, it is not a practical document for communicating with the American citizen or the Congress. At a minimum, the Report should provide an opportunity for all interested parties to easily gain an understanding of the significant fiscal challenges that the federal government faces now and in the future. In 2005, the Treasury Department consulted with a number of communication and accountability reporting experts (including some international colleagues) to identify ways to improve the Report's informative value and, more importantly, its ability to communicate with the general public.

In response, for the first time, the Treasury Department and OMB, in cooperation with GAO developed and issued a summary report entitled, The Government's Financial Health--A Citizen's Guide to the Financial Report of the U.S. Government. This Guide provides a summary of the key data and issues addressed in the full report in a "user-friendly" manner to the general public. We attempted to minimize the use of detailed technical and political jargon to make it easy to read. We have made a point of sharing this document not only with members of Congress, but also educational institutions around the country and in public professional forums. The document is eight pages in length and while printing was limited, it is freely accessible on the Internet. We have received valuable feedback, thus far, and are looking forward to improving on the Guide in subsequent editions.

As the primary investors in our country, U.S. citizens are entitled to, and our government is obligated to provide, up-to-date financial performance results about the government's current and future financial health. It is our hope that this document is the first of many of its kind--and that it sparks interest not only among committee members but the general public and encourages continued discussion of these important issues.

Outlook for Financial Reporting

I am committed to working with OMB and the Chief Financial Officers Council on developing the government's financial management strategy for the near future. The improvements in financial systems and business processes that many agencies have made as a result of audited financial statements and accelerated timelines has led to better underlying financial data. We are now looking toward improving efficiency through standard systems and processes and a common language and structure for exchanging information and financial data among agencies and between agencies and Treasury.

Conclusion

The process of producing the Financial Report of the U.S. Government and annual agency financial reports and the reports themselves can have an impact on improving management and control of the government's finances. However, these reports are of limited or even minimal value if they go unread. As such, in addition to continuing to pursue resolution of the Government's financial reporting weaknesses, this year, the Treasury focused on how to make the document and the information that it contains more relevant and useful to the general public. We believe that the Citizen's Guide is a solid first step and hope that its visibility will inspire the public to ask questions about the government's and our own financial future.

Thank you, Mr. Chairman. This concludes my formal remarks. I look forward to your questions.

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U.S. DEPARTMENT OF THE TREASURY

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June 26, 2008
HP-1060

Statement For the Record of the Senate Committee on Finance Hearing on International Tax Reform Held on June 26, 2008

Chairman Baucus, Ranking Member Grassley, and Members of the Finance Committee, the Office of Tax Policy of the United States Department of the Treasury is pleased to present these comments for the record, as well as the attached Treasury Department report entitled, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century.*

The global economy has changed markedly over the past half century, and so too has the U.S. role in that global economy. Trade and investment flow across borders in greater volume and with greater ease. As we look to the future, many factors, including education, immigration, and trade policies play an important role in the lives and living standards of U.S. workers and in the ability of U.S. companies to compete globally. By influencing incentives to acquire and use capital, the U.S. international tax regime, and U.S. business taxes more generally, also play an important role in economic decision making.

Increasingly, the ability of U.S. companies to grow and prosper depends on their ability to do business globally. In the 1960s, the decade during which many of our current tax rules regarding cross-border activities and investment were first enacted, international trade and investment flows were much less important than they are today to the U.S. economy and to U.S. companies. Thus, the United States was free to make decisions about its tax system based primarily on domestic considerations. Moreover, our trading partners generally followed the U.S. lead in tax policy.

Circumstances have changed since the 1960s. Globalization – the growing interdependence of countries resulting from increasing integration of trade, finance, investment, people, information, and ideas in one global marketplace – has resulted in increased cross-border trade and the establishment of production facilities and distribution networks around the globe. Businesses now operate more freely across borders, and business location and investment decisions are more sensitive to tax considerations than in the past.

As barriers to cross-border movement of capital and goods have been reduced, differences in nations' tax systems have become a greater factor in the success of global companies. Globalization has made it imprudent for the United States, or any other country, to enact tax rules that do not take into account what other countries are doing. Our major trading partners recognize this. Many have modified or plan to modify their business tax systems to improve their global competitiveness. For example, during the past two decades, many of our major trading partners have lowered their corporate tax rates, causing the United States to go from being a low statutory corporate tax-rate country to being a high statutory tax-rate country. Moreover, during the same period, many of the member countries of the Organisation for Economic Co-operation and Development (OECD) have changed how they tax the foreign earnings of their companies, increasingly moving toward systems that exempt from tax the active foreign earnings of their multinational companies.

As our major trading partners respond to the realities of the global economy, U.S. companies increasingly suffer a competitive disadvantage. The U.S. business tax system imposes a burden on U.S. companies and U.S. workers by raising the cost of investment in the United States and burdening U.S. companies as they compete with foreign companies in foreign markets. Business taxes play a key role in the economy because they influence the incentive to acquire and use capital – the plants, offices, equipment, and software that corporations employ to produce goods and services. In general, an economy with more capital is more productive and ultimately attains a higher standard of living than economies that have accumulated less capital. Workers gain when businesses have more capital and, correspondingly, workers stand to lose when the tax system leads businesses to invest less and have a smaller capital stock.

The current U.S. system for taxing multinational companies has been developed in a patchwork fashion, resulting in a web of tax rules that is unlikely to promote maximum economic efficiency. The United States cannot afford to be left behind as other nations modernize their business tax systems, including the taxation of foreign earnings. In general, inaction would make the United States a less attractive place in which to invest, innovate, and grow. As capital moves more freely across borders, and emerging countries begin to approach U.S. levels of education and training, some advantages that the United States currently has will erode. Americans deserve a tax system that is simple, fair, and pro-growth – in tune with the nation's dynamic economy.

The tax relief proposed by President Bush and enacted by Congress in the past few years has helped lay the foundation for considering ways to ensure that the U.S. tax system helps U.S. businesses and U.S. workers compete in a global economy. In 2005, the President established the President's Advisory Panel on Federal Tax Reform to identify the major problems with the current tax system and to provide recommendations on making the tax code simpler, fairer, and better suited to the modern economy. The Tax Panel's report recommended two options for comprehensive overhaul of our federal income tax system – the Growth and Investment Tax plan and the Simplified Income Tax plan. These approaches differ somewhat, but both would reduce taxes on business and capital income.

Last year Secretary Paulson, recognizing that an examination of our business tax system in the context of the global marketplace was overdue if the competitiveness of U.S. businesses and U.S. workers in a global economy is to be maintained, initiated a review of the nation's system for taxing businesses. On July 26, 2007, the Secretary hosted a conference on *Business Taxation and Global Competitiveness*, where distinguished business leaders and policy experts discussed how the current business tax system can be improved to make U.S. businesses more competitive in today's global economy. The conference highlighted the need for reform. The participants stressed that the U.S. business tax system has not kept pace with changes in the world economy. The conference participants expressed a conviction that in order for U.S. companies and U.S. workers to compete and thrive in today's global economic climate, the U.S. business tax system also must adapt to these changes.

Treasury Report on Business Taxation and Global Competitiveness

In December 2007, the Treasury Department released a comprehensive study addressing business taxation and global competitiveness as a follow-up to the July 2007 conference. This report, *Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century*, examines how business taxation in the United States compares with that of the United States' major trading partners. It also outlines several broad approaches to business tax reform, including some approaches to taxing foreign earnings.

International Comparison of Business Taxation

Since 1980, the United States has gone from a high statutory corporate tax-rate country to a low-rate country, following the Tax Reform Act of 1986, and, based on some measures, back again to a high-rate country today. During the past two decades, many of our major trading partners have lowered their corporate tax rates, some dramatically. Within the OECD, the United States now has the second highest statutory corporate tax rate at 39 percent (including state corporate taxes) compared with the average OECD statutory tax rate of 31 percent.

Statutory corporate income tax rates are the most common measure of the tax burden imposed on corporations. The evolution of OECD corporate tax rates over the past two decades suggests that corporate tax rate setting is an interactive process subject to the pressures of international competition. In the early 1980s, the United States had a relatively high statutory corporate tax rate of nearly 50 percent (i.e., combined federal and average state rates). The Tax Reform Act of 1986 lowered the U.S. federal statutory corporate tax rate to 34 percent, and the U.S. combined statutory corporate tax rate fell to 38 percent, well below the then-prevailing OECD corporate tax rates. OECD rates trended steadily down over the ensuing decade, while the top U.S. federal statutory corporate tax rate increased to 35 percent in 1993. The average and median OECD statutory corporate tax rates fell below the U.S. corporate tax rate in the 1990s and have continued to decline. Now, the United States is once again a high corporate tax rate country.

The decline in OECD corporate tax rates appears likely to continue. Other countries are reducing their corporate tax rates, leaving the United States further behind. Effective this year, Canada reduced its corporate income tax rate from 21 percent to 19.5 percent, lowering its combined central and local corporate rate to approximately 33 percent. Canada has indicated also that it will reduce its central corporate tax rate to 15 percent by 2012. Germany reduced its total corporate tax rate from 38 percent to 30 percent, Italy reduced its corporate tax rate from 33 percent to 27.5 percent, and the United Kingdom reduced its corporate tax rate from 30 percent to 28 percent. Smaller countries among the OECD also have been particularly aggressive in cutting their corporate tax rates, with Iceland, Ireland, Hungary, Poland, the Slovak Republic, Greece, Korea, and Luxembourg reducing their corporate tax rates significantly in recent years.

Of course, statutory corporate tax rates provide an incomplete picture of the corporate tax burden because they reflect neither the corporate tax base nor investor-level taxes. Depreciation allowances – the rate at which capital investment costs may be deducted from taxable income over time – are a key determinant of the corporate tax base and an important factor distinguishing the statutory corporate tax rate from the effective marginal corporate tax rate.The difference between the statutory corporate tax rate and the effective marginal corporate tax rate varies depending on the source of finance – debt or equity – because interest is generally deductible, but dividends are not.The required rate of return for debt-financed investment, therefore, is lower than the required return for equity-financed investment. Most OECD countries offer accelerated depreciation for equipment investment. However, in contrast to its high statutory corporate tax rate relative to other OECD countries, the United States has relatively generous depreciation allowances for equipment. In the OECD, only Greece and Italy have more generous depreciation allowances.

Worldwide vs. Territorial Tax Systems for Taxing Foreign Earnings

The increased globalization of U.S. businesses and the decline in corporate tax rates abroad have focused attention on the U.S. corporate tax rules in the international context.

Under current law, corporations formed in the United States are subject to tax on their worldwide income, meaning that they are subject to immediate U.S. tax on all of their direct earnings, whether earned in the United States or abroad. However, U.S. corporations with foreign subsidiaries generally are not taxed on the foreign subsidiaries' active business income (such as from manufacturing operations) until the income is repatriated. That is, until that active business income is returned to the United States, typically through a dividend to the parent corporation, U.S. tax is deferred. Not all foreign subsidiary income is subject to deferral, however. For example, U.S. tax is not deferred on passive or easily moveable income of foreign subsidiaries of U.S. corporations, under the anti-deferral rules in subpart F of the Internal Revenue Code.

To prevent double taxation of income by both a foreign country and the United

States, a U.S. corporation is generally allowed a foreign tax credit for foreign taxes paid by it. In addition, a U.S. corporation is generally allowed a foreign tax credit for foreign taxes paid by a foreign corporation, of which it owns 10 percent or more of the voting stock, on earnings the foreign corporation repatriates. The foreign tax credit is claimed by a taxpayer on its U.S. tax return, and reduces U.S. tax liability on foreign source income.

The major alternative to a worldwide system is a territorial system in which the home country exempts all or a portion of the foreign earnings from home-country taxation.The U.S. system was developed at a time when the United States was the primary source of capital investment and dominated world markets. The global landscape has shifted considerably over the past several decades, with other countries challenging the U.S. position of economic pre-eminence.

Although a predominantly worldwide approach to the taxation of cross-border income was once prevalent, it is now used by less than one half of OECD countries. Instead, many of these countries now use predominantly territorial tax systems. Furthermore, the United Kingdom and Japan, large U.S. trading partners that still have a worldwide system of taxation, are both studying the adoption of a more territorial tax system.

Approaches to Business Tax Reform

Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century, attached to this statement, seeks to advance the dialogue on the key linkages between tax policy and American competitiveness in the global economy. To that end, the study outlines specific business tax areas that can be addressed, including the taxation of cross-border corporate income. Shaped by the discussion at the Treasury Department's July 2007 conference on competitiveness and the evolution of the global marketplace, the report discusses three bold approaches for business tax reform: (1) replacing business income taxes with a business activities tax (BAT), a type of consumption tax, (2) eliminating special business tax provisions coupled with a business tax rate reduction, and (3) eliminating special business tax provisions coupled with faster write-off of business investment, potentially combined with the exemption of active foreign earnings. The study also discusses implementing specific changes to our current system of taxing business income that focus on important structural problems within our business tax system. As noted in the study, these changes could take place within or outside the context of broad tax reform.

Rather than present a particular recommendation, the report examines the strengths and weaknesses of the various approaches. The various policy ideas discussed in the report represent just some of the approaches that could be considered. The report does not advocate any specific recommendation nor does it call for or advance any legislative package or regulatory changes. The report discusses the issues posed in this statement for the record in greater detail.

Each of the approaches discussed in the report would improve the competitiveness of the United States compared to our current system for taxing U.S. business. Nevertheless, the approaches differ in a number of dimensions. The BAT described in Chapter II of the report would possibly provide the largest benefit in terms of its effect on expanding the size of the economy – ultimately increasing output (measured in terms of Gross Domestic Product, or GDP) by roughly 2.0 percent to 2.5 percent – but raises a number of serious implementation and administrative issues.

The second and third approaches focus on fundamental reform of the existing system for taxing business income by broadening the tax base, and either lowering the business tax rate or providing a faster write-off of the cost of investment. These approaches would replace a vast array of special tax provisions, which are sometimes highly targeted to encourage particular economic activity, with broad tax relief for U.S. businesses.

These approaches also examine the possibility of the adoption of a territorial tax system in the United States. The report outlines a few types of territorial tax systems. It describes a type of territorial tax system that exempts dividends from abroad from home-country tax and that is generally referred to as a "dividend exemption" system. The report describes a "basic dividend exemption system." It also describes a few alternative territorial types of tax systems.

The present U.S. system for taxing the foreign source income of U.S. multinational corporations has several undesirable effects. The present system distorts economic behavior. For example, corporations may forgo U.S. investment opportunities to avoid the imposition of U.S. taxes. The current system also distorts the choice of where to exploit intangible assets, such as patents, and the choice of where to locate income and expenses for tax purposes. Finally, the current system is very complex, and a dividend exemption system would reduce some of the complexity related to the taxation of repatriated earnings.

Moving to a type of territorial system, therefore, could have several advantages as compared to present law. More than half of OECD countries use some type of dividend exemption system, and a dividend exemption system could reduce some of the economic distortions imposed by the current U.S. tax system.

However, there may be drawbacks to the adoption of a dividend exemption system in the United States. Various complex provisions would need to remain in the Internal Revenue Code, including those related to non-exempt income as well as income inclusions resulting under the current subpart F rules. Moreover, rules regarding the pricing of transactions between U.S. corporations and their foreign affiliates (the so-called "transfer pricing" rules) would come under increased pressure, as the move to a territorial system would increase the incentive to shift income and assets to low-taxed offshore jurisdictions. However, extending the exemption system to include additional forms of business income (such as active royalties) could relieve some of that pressure and in addition allow for further simplification, but could raise other issues and concerns.

Last, the study also discusses implementing specific changes to our current system of taxing business income with a focus on important structural problems within the current system, including the taxation of certain foreign earnings. The international tax issues considered in the report include targeted reforms to the anti-deferral rules of subpart F and simplifying the U.S. tax rules for taxing the foreign earnings of small businesses.

Conclusion

The U.S. business tax system must help U.S. companies and workers compete globally by taking into account the increasingly integrated global economy. With a view to maintaining our competitiveness, U.S. tax policy must respond to and anticipate changes in the global marketplace. The current U.S. system is far from optimal, and we cannot afford to be left behind as other nations modernize their business tax systems, including the taxation of foreign earnings. The U.S. system for taxing businesses needs to be reevaluated to consider how it can be improved to attract and generate the investment and innovation necessary to advance the living standards of all Americans. The Administration looks forward to working with the Finance Committee on this important topic.

Attachment:

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LINKS

- Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century

PRESS ROOM
U.S. DEPARTMENT OF THE TREASURY

June 27, 2008
HP-1061

Week 9 Wrap-Up:
Treasury Sent 9.674 Million Stimulus Payments This Week

This week the Treasury Department sent out 9.674 million economic stimulus payments to American households totaling $7.522 billion. So far, Treasury has sent out 94.849 million total economic stimulus payments totaling $78.304 billion.

Cumulative Total

Total Number of Payments: 94.849 million
Total Amount of Payments: $78.304 billion

Week Nine (June 23-27)

Total Number of Payments: 9.674 million
Total Amount of Payments: $7.522 billion

Week Eight (June 16-20)

Total Number of Payments: 9.071 million
Total Amount of Payments: $6.919 billion

Week Seven (June 9-13)

Total Number of Payments: 9.526 million
Total Amount of Payments: $7.032 billion

Week Six (June 2-6)

Total Number of Payments: 9.143 million
Total Amount of Payments: $6.789 billion

Week Five (May 26-30)

Total Number of Payments: 5.757 million
Total Amount of Payments: $4.320 billion

Week Four (May 19-23)

Total Number of Payments: 6.211 million
Total Amount of Payments: $4.927 billion

Week Three (May 12-16)

Total Number of Payments: 15.575 million
Total Amount of Payments: $13.562 billion

Week Two (May 5-9)

Total Number of Payments: 22.180 million
Total Amount of Payments: $20.138 billion

Week One (April 28-May 2)

Total Number of Payments: 7.708 million
Total Amount of Payments: $7.091 billion

The Treasury Department will announce at the end of every week the total number of payments that have been sent to households, and the total amount of payments sent. Payments began April 28 and will continue via direct deposit or paper check through mid-July. For a single filer, the minimum payment is generally $300 and the maximum payment is $600. For joint filers, the minimum is generally $600 and the maximum $1,200. There is also an additional $300 payment for each qualifying child.

For tax returns processed by the Internal Revenue Service by April 15 households will receive their payments according to the last two digits of the Social Security number on the tax form. On a joint return, the first number listed will determine when a stimulus payment will be sent.

REPORTS

- Direct Deposit Payments

Direct Deposit Payments

If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be transmitted to your bank account by:
00-20	May 2
21-75	May 9
76-99	May 16

Paper Check

If the last two digits of your Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

A small percent of tax returns will require additional time to process and to compute a stimulus payment amount. For these returns, stimulus payments may not be issued in accordance with the schedule above, even if the tax return was processed by April 15. In these cases, the stimulus payment will be issued approximately 2 weeks after the tax return is ultimately processed.