Department of the Treasury

# PRESS RELEASES

Numbers not used HP-1249 and 1271.

# Deputy Secretary Robert M. Kimmitt Remarks at the U.S.-Iraq Dialogue on Business and Investment Climate

11/3/2008

HP-1248

**Baghdad -** It is a pleasure to join in welcoming you to the Dialogue on Business and Investment Climate. On behalf of the American delegation, including Ambassador Crocker and my colleagues from Washington -- John Sullivan and Mike Delaney -- I would like to express appreciation to our Iraqi hosts, and particular appreciation to my friend, Vice President Adil Abdul Mahdi, for hosting this event.

We meet in the midst of historic transformation in the global economy. In just the past few weeks, the United States and other countries have taken steps to: provide much needed liquidity to the financial system; strengthen financial institutions; protect investors; and enhance market stability. These actions are a powerful step toward restoring the health of the global financial system, and creating the conditions for continued increases in cross-border trade and investment.

Even as we seek to stabilize the major economies' financial markets, we continue to focus attention on supporting emerging markets, including Iraq, at this time of global stress. Without economic progress and sound financial practices, political and security gains will remain temporary. This is why the U.S. Government is committed to working alongside the Iraqi leadership to help create a stable macroeconomic environment, strengthen the financial system, and build a solid foundation for private sector economic growth.

Private sector development is the engine of a flourishing economy and the only sustainable catalyst for job creation. Expanding the private sector helps diversify the economy, making the country more resilient to external economic and financial shocks. It also brings in new management techniques and the latest technology, which create efficiencies that enable businesses to compete in the regional and global marketplaces.

Iraq has many resources from which to draw, and its immense natural resources are only the most well known. Companies around the world are beginning to recognize the long-term investment opportunities that now exist in the agricultural, infrastructure, telecommunications, financial services, and tourism sectors. However, there are many obstacles that limit business opportunities for Iraqis and their international counterparts.

That is precisely why we are here today. This morning, we will hear from Iraqi leaders discussing the progress they are making in reforming investment laws and regulations, including through the National Investment Commission. Later today, we will hear from the private sector and the World Bank, who will discuss ways that the Iraqi government and its international partners can best promote investment and leverage public and private sector initiatives. Importantly, key officials from the Council of Representatives as well as provincial governors will also participate in the dialogue to help shape the vision for Iraq's economic future.

It is important to emphasize at the outset that today's dialogue is not the first effort to promote Iraq's private sector. I would like to note some of the work that Iraq, and we in the international community, are already doing to help improve the Iraqi economy, as a basis for discussing how to do even more together:

- First, Iraq has made significant progress implementing a sound macroeconomic framework. Their accomplishments include establishing a strong and respected currency, lowering inflation, improving fiscal policies, attaining consistent growth, and reducing subsidies. Iraq has also passed an important investment law that will help lay the legal basis for foreign investment in the country. And it has maintained a trade regime built on a simple, low tariff schedule.

- Externally, Iraq has substantially decreased the sovereign debt burden incurred under the former regime by actively engaging with the international community. By concluding agreements with remaining official creditors, particularly in the Gulf, Iraq would send a positive signal to investors that it can resolve disputes amicably. Investors are also closely watching political negotiations in Iraq, including on security arrangements. We hope that negotiations on a security agreement can be concluded as quickly as possible.
- Second, agencies from across the U.S. Government, many of whom are represented here today, are implementing initiatives to support Iraq's private sector development. For instance:
- The Treasury Department is providing technical assistance and guidance to help Iraq modernize its public banking sector.
- The Department of Defense's Task Force to Improve Business and Stability Operations in Iraq focuses on encouraging industrial revitalization, attracting foreign investment and market access, and modernizing the private banking sector.
- The United States Agency for International Development helps expand private sector access to financing, supports regulatory reform, and distributes assistance for development support to Iraqi businesses.
- The Overseas Private Investment Corporation, through programs like the Iraq Middle Market Development Foundation, has created loan programs to support small and middle market businesses initiatives.
- Third, and finally, the international community as a whole has also helped Iraq rebuild its economy. At the Madrid Donors' Conference in 2003, 45 countries and international institutions pledged $34 billion for reconstruction and development. In the International Compact with Iraq, agreed to in Sharm el Sheikh in 2007, an even larger group of donors provided additional support in return for Iraqi's commitment to multiple benchmarks to create an enabling environment for private investment and job creation. And, the United Nations and World Bank both manage the International Reconstruction Fund Facility for Iraq, into which donors have contributed almost $80 million focused on private sector development in Iraq.

While much has been done – by Iraq, by the U.S. Government, and by the international community – significant challenges remain. The World Bank's Doing Business Indicators ranked Iraq 152 of 181 countries. We already know some of the most important areas for improvement: the complexity of Iraq's existing laws, regulations, and administrative procedures; the need for competition and consumer protection laws; and importantly, the publication of implementing regulations for the new investment law. Iraq's ministerial and provincial budget execution also is still too slow, and the average time and cost to start a business are some of the highest in the region.

The Iraqi government, with the support of international donors, is creating a strategy to overcome these hurdles, including efforts with the World Bank to improve the ease of doing business. But the Iraqi government and its international partners also have much to learn from our private sector colleagues, including those in this audience. You have the resources and experience to help Iraq develop a robust private sector, by helping identify and resolve some of the major impediments that investors face.

By building a vibrant economy led by the private sector, we will help improve the lives of the Iraqi people, enhance stability, and bolster prospects for lasting peace. But there are also sound business reasons for exploring investment opportunities at this time. By leveraging the ingenuity and entrepreneurship of those from all communities involved, we will achieve much more together than we ever could acting alone.

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

11/3/2008

HP-1250

**Washington -** Economy activity has slowed noticeably in the past several months, with weaker consumer and business spending, as well as corresponding impacts on the labor market. Financial market strains deepened further in September, disrupting the flow of credit to businesses and households, and affecting equity prices and consumer and business confidence. Policy actions taken in recent weeks have helped stabilize markets, but credit conditions remain strained. Against this backdrop, the housing market adjustment continues, and while energy prices rose to record levels in July, cutting into consumer budgets, they have fallen considerably in recent months.

The economy as a whole was growing moderately going into the third quarter. Real GDP increased by 2.8 percent in the second quarter, boosted in large part by a narrowing trade deficit. Exports continued to post solid gains, and imports declined. Outside of trade, however, growth was weak. A pick-up in consumer spending in the second quarter, reflecting the effects of stimulus payments, was largely offset by declines in business investment in equipment and software and residential homebuilding.

Growth slowed sharply in the third quarter, with real GDP declining by 0.3 percent at an annual rate. Consumer spending fell for the first time since 1991, subtracting 2-1/4 percentage points from third-quarter GDP growth. The drop in consumption was the largest since 1980. Business investment slipped by 1.0 percent in the third quarter, as outlays for structures slowed and spending for equipment and software declined for a third straight quarter. Residential investment, which has been a drag on growth since the start of 2006, subtracted 0.7 percentage points from real GDP growth.

GDP growth in the third quarter was supported by inventory investment, government spending, and another solid increase in net exports. Net exports contributed 1.1 percentage points to real growth in the third quarter, compared to a contribution of 2.9 percentage points in the second quarter.

October indicators suggest a weak start to the final quarter of this year. Consumer optimism as measured by the Conference Board fell to an all-time low in the wake of pronounced financial market volatility; regional manufacturing indicators from the New York Fed and the Philadelphia Fed point to a sharp slowdown in industrial activity; and high initial claims for unemployment insurance indicate a weak labor market. Trade has been a key driver of growth in recent quarters, but slowing economic activity in several important trading partners suggests that net exports will make a smaller contribution going forward.

The housing adjustment continues. Home sales are still sluggish, inventories of existing unsold homes remain at a historically high level, and prices continue to decline. The adjustment in new home inventories, however, is well underway, with inventories of new homes down from a peak of 572,000 in July 2006 to 394,000 in September. This adjustment mainly reflects the falloff in building, with the current pace of new residential construction the slowest in more than two decades. The slow pace of building permit issuance, the historically low level of builder confidence, and tight credit conditions suggest that a recovery in new home construction will take some time (though a stabilization of the decline in residential construction will remove an important drag from growth). House prices were down 5.9 percent in August from year-earlier levels according to the Federal Housing Finance Agency. Other measures such as the Case-Shiller measures of home prices likewise show continued price declines. Mortgage delinquencies and foreclosures rose to new highs in the second quarter. Increased foreclosures feed into home inventories and put additional downward pressure on home prices; homes sold at foreclosure tend to exhibit particularly large price declines.

The labor market has weakened notably against the backdrop of a slowing economy. Nonfarm payrolls fell by an average of 100,000 per month in the third quarter, compared to 77,000 jobs lost per month on average in the first half of 2008. Nonfarm payroll employment is down by about 750,000 jobs on net this year. The unemployment rate stood at a 5-year high of 6.1 percent in September.

Headline inflation accelerated sharply through the summer as energy prices spiked to record levels and food prices continued to climb rapidly; the recent sharp reversal of oil prices and the weak real economy, however, are likely to reverse these inflationary pressures. The consumer price index rose 4.9 percent in the twelve months ending in September, up from 2.8 percent in the year-earlier period. Energy prices shot up 23 percent over the latest twelve months, while food prices rose 6 percent. Excluding energy and food prices, core consumer price inflation remained contained. Over the year ended in September, core inflation was 2.5 percent, roughly within the narrow range that has prevailed over the past four years.

The trend toward rising headline inflation eased late in the summer, as energy and other commodity prices retreated sharply. Retail gasoline prices have fallen by $1.45 from their all-time high of $4.11 per gallon recorded in July, and now stand at $2.66 per gallon. Gasoline prices have moved lower with sliding crude oil prices. The benchmark one-month futures price of West Texas Intermediate crude oil has declined more than 50 percent from a record intraday high of $147 per barrel in mid July and on Friday closed at $67.81 per barrel. With the retreat in energy prices and the slowing of economic growth, headline inflation is expected to ease going forward.

Several factors are affecting consumer demand, including labor market conditions, high energy and food prices, and wealth declines from lower asset values. The summer surge in headline inflation cut into real wage growth, with real average hourly earnings falling by 1.9 percent over the year ended in September. Household wealth has been eroded by falling asset prices. House price declines have eaten away at the value of household real estate holdings, while equity market declines have reduced the value of financial assets. Between the third quarter of 2007 and the second quarter of this year, household net worth fell by $2.7 trillion – the first decline in household wealth since 2002. Further declines appear likely for the third and fourth quarters of this year.

The weak economy has also affected the Federal budget. In FY2008, the fiscal year just ended in September, the Federal deficit widened by $292 billion to $455 billion (3.2 percent of GDP). That followed three years of improvement during which the deficit narrowed to $162 billion (1.2 percent of GDP) in FY2007. The higher FY2008 deficit reflects the slowing economy and the economic stimulus package enacted in early 2008.

Financial market volatility reached unprecedented levels in recent weeks. Important parts of credit markets seized up and equity markets posted steep losses, triggered by uncertainty about the overall economy and about the performance and viability of a wide range of assets, as well as the financial institutions holding or providing contingent guarantees for those assets. These developments have clouded the outlook for the remainder of 2008 and early 2009, prompting forecasters to cut their projections for near-term growth. Most private-sector analysts expect activity to be weak into next year.

Although it will take time to work through the problems currently plaguing our financial system, recent measures undertaken by the federal government are expected to help stabilize financial markets and put the economy back on firm footing. The Emergency Economic Stabilization Act of 2008 (EESA), signed into law on October 3, gives the Treasury Department the ability to design and deploy a number of tools to restore the flow of credit to consumers and businesses. Specifically, the EESA empowers Treasury to use up to $700 billion to inject capital into financial institutions, to purchase or insure mortgage assets, and to purchase any other troubled asset that the Treasury and the Federal Reserve deem necessary to promote financial market stability.

The Capital Purchase Program announced by the Treasury allocates $250 billion to be used to inject capital into a wide range of banks. This action will shore up banks' capital positions, encourage the resumption of interbank lending, and translate into increased lending to consumers and business. The FDIC temporarily raised the deposit insurance limit from $100,000 to $250,000 per depositor per bank, and, in addition has temporarily guaranteed the newly issued senior unsecured debt of FDIC-insured institutions and their holding companies, as well as deposits in non-interest bearing deposit transaction accounts. The Federal Reserve has announced a number of actions to increase liquidity in financial markets, including launching several new liquidity facilities. These include the Commercial Paper Funding Facility (CPFF) program, which provides a broad backstop for the commercial paper market by funding purchases of commercial paper of three month maturity from high-quality issuers. The Federal Reserve has also started the Money Market Investor Funding Facility, which allows private special purpose vehicles to purchase assets from money market mutual funds and thereby works to restore liquidity to money markets.

There is some evidence that credit markets are beginning to thaw. The TED spread – the rate on 3-month interbank loans relative to the risk-free 3-month T-bill rate, and a measure of willingness of banks to lend to each other – has eased substantially. From a high of 457 basis points in early October, the spread has fallen about 200 basis points, even though it still remains elevated at about 260 basis points. (The TED spread averaged around 40 basis points prior to mid 2007, when the financial turmoil began in 2007.) Taken together, these policy measures are intended to boost liquidity and add capital to the financial system, thereby restoring confidence and stability in financial institutions so they can fuel continued economic growth.

In sum, economic conditions have deteriorated notably over the past few months. It will take time for financial markets to stabilize and for credit market strains to ease. In the meantime, economic activity is expected to remain weak into 2009. The Emergency Economic Stabilization Act of 2008, along with other policy actions, will help restore stability in financial markets and reduce uncertainty and improve confidence, fostering better economic performance over time.

## Treasury Hires Legal Firms Under the Emergency Economic Stabilization Act

11/3/2008

*To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.*

HP-1251

**Washington -** The U.S. Treasury Department today announced that Hughes Hubbard & Reed, LLP and Squire Sanders & Dempsey, LLP will assist the Department in the implementation of the Capital Purchase Program authorized under the Emergency Economic Stabilization Act. Treasury procured the services of the law firms on Wednesday.

The firms will help the Department with executing transactions under the program, which includes reviewing executed investment agreements, working directly with accepted financial institutions to identify and resolve any legal issues before closing, and conducting the closing of transactions.

The agreements with the firms are effective until April 28, 2009. Treasury issued a request for quotes from five firms on the General Services Administration's Federal Supply Schedules on October 24. The Department received four quotes in response. Based on the estimated transactions under the program, total costs for each firm is not expected to exceed approximately $5.5 million. More information on these contracts will be posted at https://www.fpds.gov (Federal Procurement Data System).

**REPORTS**

- Hughes Hubbard & Reed Contract
- Squire Sanders & Dempsey Contract

# ORDER FOR SUPPLIES OR SERVICES



**IMPORTANT: Mark all packages and papers with contract and/or order numbers.**

1. DATE OF ORDER: 10/29/2008
2. CONTRACT NO. *(If any)*: 09BPA002
3. ORDER NO.:
4. REQUISITION/REFERENCE NO.:

5. ISSUING OFFICE *(Address correspondence to)*
DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVENUE, NW
PROCUREMENT SERVICES DIVISION
ATTN: STEVEN GORDON
WASHINGTON DC 20220

6. SHIP TO:
a. NAME OF CONSIGNEE: Indicated on call
b. STREET ADDRESS:
c. CITY:
d. STATE:
e. ZIP CODE:
f. SHIP VIA:

7. TO:
a. NAME OF CONTRACTOR: HUGHES HUBBARD & REED LLP
b. COMPANY NAME:
c. STREET ADDRESS: ONE BATTERY PARK PLAZA
d. CITY: NEW YORK
e. STATE: NY
f. ZIP CODE: 10004-1482

8. TYPE OF ORDER
- [ ] a. PURCHASE
REFERENCE YOUR:

Please furnish the following on the terms and conditions specified on both sides of this order and on the attached sheet, if any, including delivery as indicated.

- [ ] b. DELIVERY

Except for billing instructions on the reverse, this delivery order is subject to instructions contained on this side only of this form and is issued subject to the terms and conditions of the above-numbered contract.

9. ACCOUNTING AND APPROPRIATION DATA: Indicated on call
10. REQUISITIONING OFFICE: DEPARTMENT OF THE TREASURY

11. BUSINESS CLASSIFICATION *(Check appropriate box(es))*
- [ ] a. SMALL
- [ ] b. OTHER THAN SMALL
- [ ] c. DISADVANTAGED
- [ ] g. SERVICE-DISABLED VETERAN-OWNED
- [ ] d. WOMEN-OWNED
- [ ] e. HUBZone
- [ ] f. EMERGING SMALL BUSINESS

12. F.O.B. POINT: Destination

13. PLACE OF
a. INSPECTION: Destination
b. ACCEPTANCE: Destination

14. GOVERNMENT B/L NO.:
15. DELIVER TO F.O.B. POINT ON OR BEFORE *(Date)*: Indicated on call
16. DISCOUNT TERMS:

17. SCHEDULE *(See reverse for Rejections)*

| ITEM NO. (a) | SUPPLIES OR SERVICES (b) | QUANTITY ORDERED (c) | UNIT (d) | UNIT PRICE (e) | AMOUNT (f) | QUANTITY ACCEPTED (g) |
|---|---|---|---|---|---|---|
| | GSA Contract #: GS-23F-0172<br><br>Continued ... | | | | | |

SEE BILLING INSTRUCTIONS ON REVERSE

18. SHIPPING POINT:
19. GROSS SHIPPING WEIGHT:
20. INVOICE NO.:

17(h) TOTAL *(Cont. pages)*: $0.00

21. MAIL INVOICE TO:
a. NAME: Indicated on call
b. STREET ADDRESS (or P.O. Box):
c. CITY:
d. STATE:
e. ZIP CODE:

17(i) GRAND TOTAL: $5,645,161.75

22. UNITED STATES OF AMERICA
BY *(Signature)* Steven C. Gordon

23. NAME *(Typed)*: STEVEN C. GORDON
TITLE: CONTRACTING/ORDERING OFFICER

# ORDER FOR SUPPLIES OR SERVICES
## SCHEDULE - CONTINUATION



**IMPORTANT:** Mark all packages and papers with contract and/or order numbers.

| DATE OF ORDER | CONTRACT NO. | ORDER NO. |
|---|---|---|
| 10/29/2008 | 09BPA002 | |

| ITEM NO. (A) | SUPPLIES/SERVICES (B) | QUANTITY ORDERED (C) | UNIT (D) | UNIT PRICE (E) | AMOUNT (F) | QUANTITY ACCEPTED (G) |
|---|---|---|---|---|---|---|
| | Admin Office:<br>DEPARTMENT OF THE TREASURY<br>PROCUREMENT SERVICES DIVISION<br>1500 PENNSYLVANIA AVE, NW<br>MAIL STOP: 1425 NEW YORK AVE, NW<br>SUITE 2100<br>WASHINGTON DC 20220<br>Period of Performance: 10/29/2008 to 04/28/2009 | | | | | |

TOTAL CARRIED FORWARD TO 1ST PAGE (ITEM 17(H))

Department of the Treasury, DO
09BPA002

Legal Support Services
GSA Contract No. GS-23F-0172

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

In the spirit of the Federal Acquisition Streamlining Act, the Department of the Treasury and Hughes, Hubbard & Reed, LLP enter into this Blanket Purchase Agreement (BPA) to further reduce the administrative costs of acquiring repetitive services from the General Services Administration (GSA) Federal Supply Schedule (FSS), Financial and Business Solutions (FABS) Contract GS-23F-0172P.

Federal Supply Schedule contract BPAs eliminate contracting and open market costs such as: the search for sources; the development of technical documents and solicitations; and the evaluation of bids and offers. Contractor Team Arrangements are permitted with Federal Supply Schedule contractors in accordance with Federal Acquisition Regulation (FAR) Subpart 9.6 and are encouraged.

This BPA will further decrease costs, reduce paperwork and save time by eliminating the need for repetitive, individual purchases from the Schedule contract. The end result is to create a purchasing mechanism for the Government that works better and costs less.

**SIGNATURES:**

Department of the Treasury, DO
Steven C. Gordon
Contracting Officer
Department of the Treasury
Departmental Offices
1500 Pennsylvania Avenue
(1425 New York Avenue – 2nd Floor)
Washington, DC 20220
202-622-2341 (P)
202-622-2343 (F)

Date: 10/29/08

HUGHES, HUBBARD & REED, LLP
Mr. Ronald Abramson
Managing Member
1400 K Street, NW, Suite 1000
Washington, DC, 20005-2403
202-434-9100 (P)
202-783-3420 (F)

Date: 10/29/08

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

Pursuant to GSA Federal Supply Schedule Contract Number GS-23F-0067P, the Contractor agrees to the following terms of a Blanket Purchase Agreement (BPA) exclusively with the Department of the Treasury and for use by the Department of the Treasury.

(1) All services/products currently listed on your GSA schedule, to include new service/products added during the performance of this BPA can be ordered under this BPA in support of the requirements as set forth in this BPA. All orders placed against this BPA are subject to the terms and conditions of the contract.

PRICING: The Contractor's labor rates, as set forth in its GSA Schedule, are incorporated into this BPA.

(2) Delivery:

DESTINATION DELIVERY SCHEDULE/DATES

Assigned upon issuance of individual task/delivery orders.

(3) This BPA does not obligate any funds. The Government is obligated only to the extent authorized by task orders issued under this BPA. The BPA is established to fill recurring requirements.

(4) Purchase limitation: There is no dollar limitation for each individual purchase. The contractor's labor rates, as set forth in Attachment 1, are incorporated into the BPA. The contractor may not exceed the labor rates set forth in Attachment 1 during performance of any task order. However, further discounts may be negotiated per task/delivery order. Regardless of the size of the task/delivery order the contractor is encouraged to offer additional discounts.

(5) This BPA expires on **April 28, 2009** or upon expiration and non-renewal of the vendor's GSA contract. The BPA can be cancelled by the Government at any time. The Contractor shall provide all resources necessary to perform services in accordance with the requirements specified herein.

All Office of the General Counsel (OGC) requirements will be fulfilled on a task order basis. Individual task orders placed under this BPA may be issued on a firm fixed-price or time-and-materials basis, or any combination thereof.

(6) The following office is hereby authorized to issue task orders under this BPA:

| OFFICE | POINT OF CONTACT |
|---|---|
| Treasury, Procurement Services Division | Designated Contracting Officer |

Task/delivery orders shall only be placed by designated contracting officers.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

(7) Task Orders will be issued against this BPA via e-mail, FAX, or paper.

(8) Unless otherwise agreed to, all deliveries under this BPA must be accompanied by delivery tickets or sales slips that must contain the following information as a minimum:

(a) Name of Contractor;

(b) BPA Number;

(c) GSA Contract Number;

(d) Task/Delivery Order Number;

(e) Date of Issuance of Task Order; and

(f) Quantity, Unit Price, and Extension of Each Item (unit prices and extensions need not be shown when incompatible with the use of automated systems; provided, that the invoice is itemized to show the information).

(9) The requirements of a proper invoice are as specified in the Federal Supply Schedule contract. Invoices will be submitted to the address specified within the task/delivery order transmission issued against this BPA.

(10) The terms and conditions included in this BPA apply to all task orders issued against it. In the event of an inconsistency between the provisions of this BPA and the task order, the provisions of this BPA will take precedence.

(11) The Contractor's proposed conflict of interest mitigation plan is specifically incorporated into this BPA and shall be in full effect throughout the life of the BPA. In the event of any conflict or ambiguity, the terms of the BPA Attachment No. 3 will take precedence.

*IMPORTANT -- A new feature to the Federal Supply Schedules Program permits contractors to offer price reductions in accordance with commercial practice. Contractor Team Arrangements are permitted with Federal Supply Schedule contractors in accordance with FAR Subpart 9.6 and are encouraged.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

| | |
|---|---|
| Attachment No. 1 | Hughes, Hubbard & Reed's Quotation, dated October 27, 2008 |
| Attachment No. 2 | Statement of Work |
| Attachment No. 3 | Conflicts of Interest, Confidentiality & Publicity Requirements |

## SPECIAL BPA PROVISIONS/CLAUSES

### 1.1 FAR 52-252-2 CLAUSES INCORPORATED BY REFERENCE (FEB 1998)

This BPA incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be assessed electronically at www.arnet.gov.

52.207-3 - Right of First Refusal of Employment (MAY 2006)

### 1.2 AUTHORITY – CONTRACTING OFFICER (CO), CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE (COTR)

#### 1.2.1 Contracting Officer (CO)

The CO for award of this Blanket Purchase Agreement is:

Steven C. Gordon
Department of the Treasury, Departmental Offices
Procurement Services Division
1425 New York Avenue, 2nd Floor
1500 Pennsylvania Avenue, NW
Washington, DC 20220
(202) 622-2341
steve.gordon@do.treas.gov

The CO, in accordance with Subpart 1.6 of the Federal Acquisition Regulation, is the only person authorized to make or approve any changes in any of the requirements of this BPA.

Task/Delivery Orders: The Administrative Contracting Officer (ACO) within the Department of the Treasury is authorized to issue task orders against this BPA. The ACO for issuance and administration of individual task orders will be assigned by letter prior to the issuance of the first order against the BPA.

The CO, in accordance with Subpart 1.6 of the Federal Acquisition Regulation, is the only person authorized to make or approve any changes to any of the requirements of a task order, and notwithstanding any clauses contained elsewhere in this BPA, said authority remains solely with the CO. In the event the Contractor makes any changes at the direction of any person other than the CO, the change will be considered to have been made without authority and no adjustment will be made in the task order price to cover any increase in cost incurred as a result thereof.

### 1.2.2. DTAR 1052.201-70 CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE (COTR) DESIGNATION AND AUTHORITY. (MAR 2002)

(a) The COTR is:

Laurie Schaffer, Assistant General Counsel for Banking and Finance Law,
Office of the General Counsel
(202) 622-1988

(b) Performance of work under this contract must be subject to the technical direction of the COTR identified above, or a representative designated in writing. The term "technical direction" includes, without limitation, direction to the contractor that directs or redirects the labor effort, shifts the work between work areas or locations, fills in details and otherwise serves to ensure that tasks outlined in the work statement are accomplished satisfactorily.

(c) Technical direction must be within the scope of the specification(s)/work statement. The COTR **does not** have authority to issue technical direction that:

(1) constitutes a change of assignment or additional work outside the specification(s)/work statement;

(2) constitutes a change as defined in the clause entitled "Changes";

(3) in any manner causes an increase or decrease in the contract price, or the time required for contract performance;

(4) changes any of the terms, conditions, or specification(s)/work statement of the contract;

(5) interferes with the contractor's right to perform under the terms and conditions of the contract; or

(6) directs, supervises or otherwise controls the actions of the contractor's employees.

(d) Technical direction may be oral or in writing. The COTR shall confirm oral direction in writing within five work days, with a copy to the contracting officer.

(e) The contractor shall proceed promptly with performance resulting from the technical direction issued by the COTR. If, in the opinion of the contractor, any direction of the COTR, or his/her designee, falls within the limitations in (c) above, the contractor shall immediately notify the contracting officer no later than the beginning of the next Government work day.

(f) Failure of the contractor and the contracting officer to agree that technical direction is within the scope of the contract shall be subject to the terms of the clause entitled "Disputes."

(End of clause)

## 1.3 SECURITY SCREENING REQUIREMENTS FOR ACCESS TO SENSITIVE BUT UNCLASSIFIED SYSTEMS OR INFORMATION

Security screening requirements will be determined at the task order level.

(a) In addition to complying with any functional and technical security requirements set forth in the schedule and elsewhere in this BPA, the Contractor shall request that the Government initiate personnel screening checks and provide signed user nondisclosure agreements, as required by this clause, for each contractor employee requiring staff-like access (e.g. unescorted or unsupervised physical access or electronic access), specified at the task order level, to limited or controlled areas, systems, programs and data.

(b) The Contractor shall submit a properly completed set of investigative request processing forms for each such employee in compliance with instructions to be furnished by the Contracting Officer or his/her designated representative.

*Applicable forms will be furnished to the Contractor at time of task order award.*

(c) Depending upon the nature of the type of investigation necessary, it may take a period up to several months to complete complex personnel screening investigations. At the discretion of the Government, background screening may not be required for employees with recent or current favorable Federal Government investigations. To verify the acceptability of a non-

Treasury, favorable investigation, the Contractor shall submit the forms or information needed, according to instructions furnished by the Contracting Officer.

(d) When contractor employee access is necessary prior to completion of personnel screening, each contractor employee requiring access may be considered for escort access. The Contractor shall promptly submit all requests for approval for escort access to the Contracting Officer or his/her designated representative so as not to endanger timely contract performance.

(e) The Contractor shall ensure that each contractor employee requiring access executes any nondisclosure agreements required by the Government prior to gaining staff-like access. The Contractor shall provide signed copies of the agreements to the Site Security Officer (SSO) for inclusion in the employee's security file. The Government will provide the name and location of the SSO after contract award. Unauthorized access is a violation of law and may be punishable under the provisions of Title 5 U.S.C. 552a, Executive Order 12356; Section 7211 of Title 5, United States Code (governing disclosures to Congress); Section 1034 of Title 10, United States Code, as amended by the Military Whistleblower Protection Act (governing disclosure to Congress by members of the military); Section 2302(b)(8) of Title 5, United States Code, as amended by the Whistleblower Protection Act (governing disclosures of illegality, waste, fraud, abuse or public health or safety threats); the Intelligence Identities Protection Act of 1982 (50 U.S.C. 421 et seq.) (governing disclosures that could expose confidential Government agents); and the statutes which protect against disclosure that may compromise the national security, including Sections 641, 793, 794, 798, and 952 of Title 18, United States Code, and Section 4(b) of the Subversive Activities Act of 1950 (50 U.S.C. Section 783(b)) and other applicable statutes.

(f) The Contractor shall notify the Contracting Officer's Technical Representative (COTR) or the Site Security Officer no later than the end of the day of the termination for cause of an authorized employee's access. The Contractor shall notify the COTR no later than ten days after an authorized employee no longer requires access for any other type of termination. Verbal notifications shall be confirmed in writing within thirty days.

## 1.4 IDENTIFICATION/BADGING REQUIREMENTS

During the period of this contract, access to Department of the Treasury facilities for contractor representatives shall be granted as deemed necessary by the Government. All contractor employees whose duties under this contract require their presence at any Treasury, or Treasury Bureau facility shall be clearly identifiable by a distinctive badge furnished by the Government. In addition, corporate identification badges shall be worn on the outer garment at all times. It is the sole responsibility of the Contractor to provide this corporate identification. Upon the termination of the employment of any contractor personnel working on this contract, all government-furnished identification shall be returned to the issuing office. All on-site contractor personnel shall abide by security regulations applicable to that site.

## 1.5 SECTION 508 COMPLIANCE

The Contractor must provide a comprehensive list of all offered specific electronic and information technology (EIT) products (supplies and services) that fully comply with Section 508 of the Rehabilitation Act of 1973, per the 1998 Amendments, and the Architectural and Transportation Barriers Compliance Board's Electronic and Information Technology Accessibility Standards at 36 CFR Part 1194. The Contractor must clearly indicate where this list with full details of compliance can be found (e.g., vendors or other exact web page location). The contractor must ensure that the list is easily accessible by typical users beginning five calendar days after award. The contractor must maintain this detailed listing of compliant products for the full contract term, including all forms of extensions, and must ensure that it is current within three calendar days of changes to his product line.

The vendor must ensure that all EIT products that are less than fully compliant are offered pursuant to extensive market research, which ensures that they are the most compliant products and services available to satisfy this solicitation's requirements.

For every EIT product accepted under this contract by the Government that does not comply with 36 CFR Part 1194, the contractor shall, at the discretion of the Government, make every effort to replace or upgrade it with a compliant equivalent product or service, if commercially available and cost neutral, on either the planned refresh cycle of the product or service, or on the contract renewal date, whichever shall occur first.

## 1.6. ADMINISTRATIVE INSTRUCTIONS

1.6.1 Requests For Payment/Submission Of Invoices.

a. The contractor may submit an invoice once every thirty (30) days to the Contracting Officer Technical Representative (COTR). The contractor shall have the invoice certified by the COTR. The contractor's invoice will be for one month. The contractor shall invoice only for the hours, travel and Other Direct Costs (ODCs) that are in direct support of contractor's efforts in performing the task/delivery order SOW. Hours in such invoice shall be identified by task/phase and by labor category. The amounts for labor shall be computed by multiplying the appropriate hourly rates prescribed in the Schedule by the number of direct labor hours performed with applicable discounts. Fractional parts of an hour may be payable on a prorated basis. Contractor shall substantiate vouchers by evidence of actual payment and by individual daily job timecards, or other substantiation as approved by the Contracting Officer. Government will not reimburse for overtime other than based on what was originally proposed and accepted at time of issuance of order and as indicated in the Schedule. ODCs and travel costs shall be identified by task/phase and shall include all necessary documentation supporting the charge(s). A copy of the government's document(s) accepting the covered services must accompany invoices submitted for payment. A copy of the invoice will be submitted to the addresses identified in the task/delivery order to the contracting officer at the same time it is submitted to the program manager. **Failure to comply with the procedures outlined above may result in payment being delayed.**

b. Invoices are to be emailed as soon as possible after the end of each calendar month to:

1. www.vendorpay@do.treas.gov;
2. Contracting Officer; and
3. COTR.

Submittal to "vendorpay" is considered the official invoice submittal; and it is through "vendorpay" that prompt payment compliance is tracked. Each copy of each invoice shall clearly identify the Contractor's Taxpayer Identification Number (TIN). The Contractor shall assure that a responsible official of the company signs the following statement on each invoice:

> "I certify that the services listed above have been performed in accordance with the contract and those personnel hours or other costs are true, correct, and have not been previously billed."
>
> ________________________________________
>
> Typed Name and Signature

The Contract and Task Order Number shall be typed on each invoice. Payment will be made in accordance with the Prompt Payment Act (see FAR 52.232-25 Prompt Payment).

The invoice shall be approved by the Contracting Officer's Technical Representative (COTR). If requested by the Government, time cards or time sheets for each employee shall be provided as evidence of hours worked by each employee by Task Order. The time card or time sheet will indicate the date worked, number of hours worked, and the hourly rate for each employee.

All follow-up invoices shall be marked "Duplicate of Original". Contractor questions regarding payment information should be directed to the COTR.

The Contractor shall provide the COTR with an advance (pre-submittal) version of the invoice for review.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

## 1.7 PERFORMANCE MONITORING

The Government shall monitor and evaluate the contractors overall performance and service delivery.

The Government may convene an Assessment Board to review, analyze, and evaluate the contractor's performance. The Board will also determine the disposition of extending each performance period, using the data, analysis, and evaluation performed. The Board membership will include:

a) Contracting Officer,
b) Contracting Officer's Technical Representative, and
c) Treasury OGC Management Staff.

## 1.8 STAFFING PLAN

The contractor shall maintain the Staffing Plan initially submitted in the contractor's proposal. The staffing plan shall layout the approach, practices, and staffing to accomplish the requirements of this BPA as well as the specific requirements set forth in each Task Order. As such, the plan shall relate the staffing allocations by organizational or function units of the contractor team.

## 1.9 HOLIDAYS

***OBSERVANCE OF LEGAL HOLIDAYS AND EXCUSED ABSENCES***

a) The Government hereby provides NOTICE and Contractor hereby acknowledges RECEIPT that Government personnel observe the listed days as holidays:

| | |
|---|---|
| New Years Day | January 1 |
| Martin Luther King's Birthday | Third Monday in January |
| President's Birthday | Third Monday in February |
| Memorial Day | Last Monday in May |
| Independence Day | July 4 |
| Labor Day | First Monday in September |
| Columbus Day | Second Monday in October |
| Veterans Day | November 11 |
| Thanksgiving Day | Fourth Thursday in November |
| Christmas | December 25 |
| Inauguration Day | January 20 every four years |

b) In addition to the days designated as holidays, the Government observes the following days:

    Any other day designated by Federal Statute;
    Any other day designated by Executive Order; and
    Any other day designated by the President's Proclamation.

c) It is understood and agreed between the Government and the Contractor that observances of such days by Government personnel shall not otherwise be a reason for an additional period of performance, or entitlement of compensation except as set forth within the individual Task Order. In the event the Contractor's personnel work during the holiday, they may be reimbursed by the Contractor, however, no form of holiday or other premium compensation will be reimbursed either as a direct or indirect cost, other than their normal compensation for the time worked. This provision does not preclude reimbursement for authorized premium pay, if applicable to this contract as stated in its individual Task Orders.

d) When the Federal, State, Local and other governmental entities grants excused absence to its employees, assigned Contractor personnel may also be dismissed. The Contractor agrees to continue to provide sufficient personnel to perform critical tasks already in operation or scheduled, and shall be guided by the instructions issued by the COTR.

e) In the event that Treasury personnel are furloughed, the contracting officer or the COTR will communicate contractual direction to the contractor regarding performance of work.

f) Nothing in this clause abrogates the rights and responsibilities of the parties relating to "stop work" provisions as cited in other sections of this contract. Primarily, work shall be performed at the Department of the Treasury facility or, upon approval, facilities within the Washington, D.C. metropolitan area. Occasional work may be performed at other field activity locations, including disaster recovery and/or continuity of operations locations. No locality differential payments are applicable to this contract.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

## 1.10 TASK ORDERS

When placing task orders, Treasury will not conduct competitions for individual task orders among BPA holders. However, Treasury will make an effort to ensure equitable distribution of work among BPA holders.

The standard ordering process is set forth below.

Treasury will order an approximately equally amount of work from each BPA holder. This will be achieved by alternating the award of task orders among all BPA holders, to the extent practicable.

Treasury will make its best efforts to adhere to the above process during the first 30 days following award of the BPAs. Exceptions to the standard ordering process may be made in consideration of conflicts of interest, geographical location of the contractors, and other relevant considerations.

After the first 30 days following BPA award, Treasury expects that it will continue to alternate task orders among BPA holders. However, Treasury may periodically adjust the allocation of work based on the pricing offered by the BPA holders, and the quality of their performance under the BPAs. Any such adjustments to the allocation of work will not result in more than 75% of the total work being allocated to any single firm.

## 1.11 INFORMATION SAFEGUARDS AND PRACTICES

The Contractor shall be responsible for compliance with Treasury for policy and practice regarding the storage and removal of electronic and printed materials considered sensitive in nature (i.e., system password and user identification access odes) from printers, desktops, laptops, furniture, presentation equipment, and any other form of information housing. This is so that the information is not accessible by unauthorized personnel and so that disposal follows Treasury information security practices. The contractor must ensure that contractor, subcontractor, or business partner personnel protect all sensitive and secure documents to the extent possible from either inadvertent or deliberate compromise.

## 1.12 SUPERVISION OF CONTRACTOR'S EMPLOYEES

a) Personnel assigned to render services under this contract shall at all times be under the direction and control of the Contractor Notwithstanding any other provisions of this contract, the Contractor shall at all times be responsible for the supervision of its employees in the performance of the service required hereunder.

b) During all times on government premises, the contractor's personnel shall comply with the rules and regulations governing conduct of personnel and operation of the facility.
c) If the contractor plans to employ any Non-English speaking personnel, he shall provide an on-site bi-lingual supervisor to serve as an interpreter.
d) Contractor personnel shall not at any time during the contract period be employees of the U.S. Government.

--------------------------------------------END OF BPA AGREEMENT-------------------------------------

Attachment 2 – Statement of Work

The Department of the Treasury (Treasury) is seeking law firms to assist it in executing transactions under the TARP Capital Purchase Program. The contractor will have expertise in securities and financial institution law and regulations, and will be responsible for handling all or part of 4000-8000 transactions between Treasury and banks, savings associations and their holding companies ("financial institutions"). The investment agreements provided for Treasury to invest funds in such financial institutions in exchange for the issuance of preferred stock and warrants to Treasury by publicly traded financial institutions. The Contractor may also be responsible for handling transactions involving privately held financial institutions. The financial institutions will be located in all fifty states and potentially in U.S. possessions and territories. The Contractor will be responsible for: (1) reviewing executed investment agreements for legal sufficiency and completeness; (2) identifying insufficiencies or legal issues that require action before the transactions can be closed; (3) notifying and working with the financial institution and Treasury in resolving those issues; and (4) conducting the closing of the transaction.

**CONFLICTS OF INTEREST**

(a) Treasury HAS NOT WAIVED any potential conflicts of interest as defined by Rules 1.7—1.11 of the ABA's Model Rules of Professional Conduct. Further, Contractor agrees that its future attorney-client relationship with Treasury may be governed by conflict of interest rules more restrictive than the ABA's Model Rules that may be issued by the Secretary of the Treasury pursuant to Section 108(b) of the Emergency Economic Stabilization Act of 2008.

(b) Failure to make full and timely disclosure of actual or potential conflicts of interest, or matters that may present the appearance of a conflict, as well as failure to comply with Treasury conflicts of interest policies and procedures are extremely serious matters. Such failures may subject the Contractor to corrective action including but not limited to: (1) refusal to waive a conflict; (2) termination of this contract for default; (3) debarment of the contractor from federal contracting; (4) referral to the appropriate state licensing authorities; and, in appropriate cases, and (5) civil or criminal actions.

(c) It is solely within the discretion of the Treasury Department to determine whether or not a conflict of interest exists. Even the appearance of a conflict may result in the denial of a waiver or other appropriate actions. In the event that matters are transferred pursuant to the corrective actions listed above, Contractor is expected to follow Treasury Department policies and procedures and to cooperate fully in the orderly transfer of such matters.

(d) In addition to any other applicable restrictions, the Contractor shall agree: (1) not to review capital purchase documentation of clients that the Contractor currently represents; (2) not to represent any institution whose capital purchase documentation the Contractor reviews for the duration of the period that Treasury holds equity in that institution under the Capital Purchase Program; (3) not to represent any parties in a claim against the United States with respect to the Capital Purchase Program during or following the term of the contract; (4) to have all attorneys assigned to work under this agreement receive ethics training in consultation with the Treasury Department; and (5) to have all attorneys assigned to work under this contract enter into agreements at the inception of the contract prohibiting such attorneys from reviewing capital purchase documentation of an institution in which the attorneys, their spouses, their minor children, or their other family members with whom the attorney has a close personal relationship, have a personal, business, or financial interest. Such agreements with individual reviewing attorneys shall also require the attorneys to disclose at the inception of the contract any and all personal, business, or financial interests of the individual, his or her spouse, minor children, or other family members with whom the individual has a close personal relationship that could adversely affect (i) the individual's ability to perform under this contract, (ii) his or her objectivity or judgment in such performance, or (iii) his or her ability to represent the interests of the Treasury.

**PUBLICITY REQUIREMENTS**

The contractor agrees to submit within 6 hours of contract or task order award a .pdf file of the fully executed contract or order with all proprietary information redacted for the purposes of having the redacted contract made public at the sole discretion of the Department of the Treasury. The contractor shall supply the point of contact to work directly with the Public Affairs office of the Department of the Treasury.

| ORDER FOR SUPPLIES OR SERVICES | PAGE OF PAGES |
|---|---|
| **IMPORTANT: Mark all packages and papers with contract and/or order numbers.** | 1 of 15 |

| | |
|---|---|
| 1. DATE OF ORDER: 10/29/2008 | 2. CONTRACT NO. *(If any)*: 09BPA001 |
| 3. ORDER NO. | 4. REQUISITION/REFERENCE NO. |
| 5. ISSUING OFFICE *(Address correspondence to)*: DEPARTMENT OF THE TREASURY<br>1500 PENNSYLVANIA AVENUE, NW<br>PROCUREMENT SERVICES DIVISION<br>ATTN: STEVEN GORDON<br>WASHINGTON DC 20220 | 6. SHIP TO:<br>a. NAME OF CONSIGNEE: Indicated on call<br>b. STREET ADDRESS<br>c. CITY / d. STATE / e. ZIP CODE<br>f. SHIP VIA |
| 7. TO:<br>a. NAME OF CONTRACTOR: SQUIRE SANDERS & DEMPSEY LLP<br>b. COMPANY NAME<br>c. STREET ADDRESS: 8000 TOWERS CRESCENT DRIVE<br>14TH FLOOR<br>d. CITY: VIENNA / e. STATE: VA / f. ZIP CODE: 22182-6207 | 8. TYPE OF ORDER<br>☐ a. PURCHASE<br>REFERENCE YOUR:<br>Please furnish the following on the terms and conditions specified on both sides of this order and on the attached sheet, if any, including delivery as indicated.<br>☐ b. DELIVERY<br>Except for billing instructions on the reverse, this delivery order is subject to instructions contained on this side only of this form and is issued subject to the terms and conditions of the above-numbered contract. |
| 9. ACCOUNTING AND APPROPRIATION DATA: Indicated on call | 10. REQUISITIONING OFFICE: DEPARTMENT OF THE TREASURY |
| 11. BUSINESS CLASSIFICATION *(Check appropriate box(es))*<br>☐ a. SMALL ☐ b. OTHER THAN SMALL ☐ c. DISADVANTAGED ☐ g. SERVICE-DISABLED VETERAN-OWNED<br>☐ d. WOMEN-OWNED ☐ e. HUBZone ☐ f. EMERGING SMALL BUSINESS | 12. F.O.B. POINT: Destination |

| 13. PLACE OF a. INSPECTION | 13. PLACE OF b. ACCEPTANCE | 14. GOVERNMENT B/L NO. | 15. DELIVER TO F.O.B. POINT ON OR BEFORE *(Date)* | 16. DISCOUNT TERMS |
|---|---|---|---|---|
| Destination | Destination | | Indicated on call | |

17. SCHEDULE *(See reverse for Rejections)*

| ITEM NO. (a) | SUPPLIES OR SERVICES (b) | QUANTITY ORDERED (c) | UNIT (d) | UNIT PRICE (e) | AMOUNT (f) | QUANTITY ACCEPTED (g) |
|---|---|---|---|---|---|---|
| | GSA Contract #: GS-23F-0120M<br><br>Continued ... | | | | | |

| | | |
|---|---|---|
| 18. SHIPPING POINT | 19. GROSS SHIPPING WEIGHT | 20. INVOICE NO. |

SEE BILLING INSTRUCTIONS ON REVERSE

21. MAIL INVOICE TO:
- a. NAME: Indicated on call
- b. STREET ADDRESS (or P.O. Box)
- c. CITY / d. STATE / e. ZIP CODE

17(h) TOTAL (Cont. pages): $0.00

17(i) GRAND TOTAL: $5,520,000.00

22. UNITED STATES OF AMERICA BY *(Signature)*: Steven C. Gordon

23. NAME *(Typed)*: STEVEN C. GORDON
TITLE: CONTRACTING/ORDERING OFFICER

# ORDER FOR SUPPLIES OR SERVICES
## SCHEDULE - CONTINUATION



**IMPORTANT:** Mark all packages and papers with contract and/or order numbers.

| DATE OF ORDER | CONTRACT NO. | ORDER NO. |
|---|---|---|
| 10/29/2008 | 09BPA001 | |

| ITEM NO. (A) | SUPPLIES/SERVICES (B) | QUANTITY ORDERED (C) | UNIT (D) | UNIT PRICE (E) | AMOUNT (F) | QUANTITY ACCEPTED (G) |
|---|---|---|---|---|---|---|
| | Admin Office:<br>DEPARTMENT OF THE TREASURY<br>PROCUREMENT SERVICES DIVISION<br>1500 PENNSYLVANIA AVE, NW<br>MAIL STOP: 1425 NEW YORK AVE, NW<br>SUITE 2100<br>WASHINGTON DC 20220<br>Period of Performance: 10/29/2008 to 04/28/2009 | | | | | |

TOTAL CARRIED FORWARD TO 1ST PAGE (ITEM 17(H))

## BLANKET PURCHASE AGREEMENT
## GSA FEDERAL SUPPLY SCHEDULE

In the spirit of the Federal Acquisition Streamlining Act, the Department of the Treasury and Squire Sanders & Dempsey, LLP enter into this Blanket Purchase Agreement (BPA) to further reduce the administrative costs of acquiring repetitive services from the General Services Administration (GSA) Federal Supply Schedule (FSS), Financial and Business Solutions (FABS) Contract GS-23F-0120M.

Federal Supply Schedule contract BPAs eliminate contracting and open market costs such as: the search for sources; the development of technical documents and solicitations; and the evaluation of bids and offers. Contractor Team Arrangements are permitted with Federal Supply Schedule contractors in accordance with Federal Acquisition Regulation (FAR) Subpart 9.6 and are encouraged.

This BPA will further decrease costs, reduce paperwork and save time by eliminating the need for repetitive, individual purchases from the Schedule contract. The end result is to create a purchasing mechanism for the Government that works better and costs less.

**SIGNATURES:**

Department of the Treasury, DO
Steven C. Gordon Steven C. Gordon Date: 10/24/08
Contracting Officer
Department of the Treasury
Departmental Offices
1500 Pennsylvania Avenue
(1425 New York Avenue – 2nd Floor)
Washington, DC 20220
202-622-2341 (P)
202-622-2343 (F)

SQUIRE SANDERS & DEMPSEY, LLP
Stephen C. Mahon Stephen C. Mahon Date: 10/23/08
Partner
1201 Pennsylvania Ave, NW, Suite 500
Washington, DC, 20004
513-361-1230 (P)
513-602-1003 (C)

## BLANKET PURCHASE AGREEMENT
## GSA FEDERAL SUPPLY SCHEDULE

Pursuant to GSA Federal Supply Schedule Contract Number GS-23F-0120M, the Contractor agrees to the following terms of a Blanket Purchase Agreement (BPA) Exclusively with the Department of the Treasury and for use by the Department of the Treasury.

(1) All services/products currently listed on your GSA schedule, to include new service/products added during the performance of this BPA can be ordered under this BPA in support of the requirements as set forth in this BPA. All orders placed against this BPA are subject to the terms and conditions of the contract, except as noted below:

**PRICING:**

The Contractor's labor rates, as set forth in its GSA Schedule, are incorporated into this BPA.

(2) Delivery:

DESTINATION DELIVERY SCHEDULE/DATES

Assigned upon issuance of individual task/delivery orders.

(3) This BPA does not obligate any funds. The Government is obligated only to the extent authorized by task orders issued under this BPA. The BPA is established to fill recurring requirements.

(4) Purchase limitation: There is no dollar limitation for each individual purchase. The contractor's labor rates, as set forth in Attachment 1, are incorporated into the BPA. The contractor may not exceed the labor rates set forth in Attachment 1 during performance of any task order. However, further discounts may be negotiated per task/delivery order. Regardless of the size of the task/delivery order the contractor is encouraged to offer additional discounts.

(5) This BPA expires on **April 28, 2009** or upon expiration and non-renewal of the vendor's GSA contract. The BPA can be cancelled by the Government at any time. The Contractor shall provide all resources necessary to perform services in accordance with the requirements specified herein.

All Office of the General Counsel (OGC) requirements will be fulfilled on a task order basis. Individual task orders placed under this BPA may be issued on a firm fixed-price or time-and-materials basis, or any combination thereof.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

(6) The following office is hereby authorized to issue task orders under this BPA:

| OFFICE | POINT OF CONTACT |
|---|---|
| Treasury, Procurement Services Division | Designated Contracting Officer |

Task/delivery orders shall only be placed by designated contracting officers.

(7) Task Orders will be issued against this BPA via e-mail, FAX, or paper.

(8) Unless otherwise agreed to, all deliveries under this BPA must be accompanied by delivery tickets or sales slips that must contain the following information as a minimum:

(a) Name of Contractor;

(b) BPA Number;

(c) GSA Contract Number;

(d) Task/Delivery Order Number;

(e) Date of Issuance of Task Order; and

(f) Quantity, Unit Price, and Extension of Each Item (unit prices and extensions need not be shown when incompatible with the use of automated systems; provided, that the invoice is itemized to show the information).

(9) The requirements of a proper invoice are as specified in the Federal Supply Schedule contract. Invoices will be submitted to the address specified within the task/delivery order transmission issued against this BPA.

(10) The terms and conditions included in this BPA apply to all task orders issued against it. In the event of an inconsistency between the provisions of this BPA and the task order, the provisions of this BPA will take precedence.

(11) The Contractor's proposed conflict of interest mitigation plan is specifically incorporated into this BPA and shall be in full effect throughout the life of the BPA with the caveats noted below.

* With regard to SSD's statement in its proposed mitigation plan that the firm should not be precluded from representing financial institutions that combine with other financial institutions that may have a TARP-related conflict, this may occur only with Treasury's consent, which will not be unreasonably withheld by Treasury.

* With regard to SSD's stipulations in its proposed mitigation plan that SSD would not perform legal services for Treasury with regard to certain institutions because SSD may be representing those institutions in TARP matters, it is understood that SSD may not represent such clients in litigation or claims against Treasury with respect to TARP matters.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

* SSD will abide by the ethical restrictions for individuals performing under a task order as set forth in Attachment 3, even though SSD did not specifically address such requirements in its proposal.

* With respect to the personal conflicts of interest referenced in paragraph (d) in Attachment No. 3, a person involved in performing under a task order would not be deemed to have a "financial interest" in an entity if such interest derives from a diversified mutual fund.

In the event of any conflict or ambiguity, the terms of the BPA Attachment No. 3 will take precedence.

*IMPORTANT -- A new feature to the Federal Supply Schedules Program permits contractors to offer price reductions in accordance with commercial practice. Contractor Team Arrangements are permitted with Federal Supply Schedule contractors in accordance with FAR Subpart 9.6 and are encouraged.

| | |
|---|---|
| Attachment No. 1 | Squire Sanders & Dempsey's Quotation, dated October 27, 2008 |
| Attachment No. 2 | Statement of Work |
| Attachment No. 3 | Conflicts of Interest, Confidentiality & Publicity Requirements |

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

**SPECIAL BPA PROVISIONS/CLAUSES**

## 1.1 FAR 52-252-2 CLAUSES INCORPORATED BY REFERENCE (FEB 1998)

This BPA incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be assessed electronically at www.arnet.gov.

52.207-3 - Right of First Refusal of Employment (MAY 2006)

## 1.2 AUTHORITY – CONTRACTING OFFICER (CO), CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE (COTR)

### 1.2.1 Contracting Officer (CO)

The CO for award of this Blanket Purchase Agreement is:

Steven C. Gordon
Department of the Treasury, Departmental Offices
Procurement Services Division
1425 New York Avenue, 2nd Floor
1500 Pennsylvania Avenue, NW
Washington, DC 20220
(202) 622-2341
steve.gordon@do.treas.gov

The CO, in accordance with Subpart 1.6 of the Federal Acquisition Regulation, is the only person authorized to make or approve any changes in any of the requirements of this BPA.

Task/Delivery Orders: The Administrative Contracting Officer (ACO) within the Department of the Treasury is authorized to issue task orders against this BPA. The ACO for issuance and administration of individual task orders will be assigned by letter prior to the issuance of the first order against the BPA.

The CO, in accordance with Subpart 1.6 of the Federal Acquisition Regulation, is the only person authorized to make or approve any changes to any of the requirements of a task order, and notwithstanding any clauses contained elsewhere in this BPA, said authority remains solely with the CO. In the event the Contractor makes any changes at the direction of any person other than the CO, the change will be considered to have been made without authority and no adjustment will be made in the task order price to cover any increase in cost incurred as a result thereof.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

**1.2.2. DTAR 1052.201-70 CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE (COTR) DESIGNATION AND AUTHORITY. (MAR 2002)**

(a) The COTR is:
Laurie Schaffer, Assistant General Counsel for Banking and Finance Law,
Office of the General Counsel
(202) 622-1988

(b) Performance of work under this contract must be subject to the technical direction of the COTR identified above, or a representative designated in writing. The term "technical direction" includes, without limitation, direction to the contractor that directs or redirects the labor effort, shifts the work between work areas or locations, fills in details and otherwise serves to ensure that tasks outlined in the work statement are accomplished satisfactorily.

(c) Technical direction must be within the scope of the specification(s)/work statement. The COTR **does not** have authority to issue technical direction that:

(1) constitutes a change of assignment or additional work outside the specification(s)/work statement;

(2) constitutes a change as defined in the clause entitled "Changes";

(3) in any manner causes an increase or decrease in the contract price, or the time required for contract performance;

(4) changes any of the terms, conditions, or specification(s)/work statement of the contract;

(5) interferes with the contractor's right to perform under the terms and conditions of the contract; or

(6) directs, supervises or otherwise controls the actions of the contractor's employees.

(d) Technical direction may be oral or in writing. The COTR shall confirm oral direction in writing within five work days, with a copy to the contracting officer.

(e) The contractor shall proceed promptly with performance resulting from the technical direction issued by the COTR. If, in the opinion of the contractor, any direction of the COTR, or his/her designee, falls within the limitations in (c), above, the contractor shall immediately notify the contracting officer no later than the beginning of the next Government work day.

(f) Failure of the contractor and the contracting officer to agree that technical direction is within the scope of the contract shall be subject to the terms of the clause entitled "Disputes."

(End of clause)

## 1.3 SECURITY SCREENING REQUIREMENTS FOR ACCESS TO SENSITIVE BUT UNCLASSIFIED SYSTEMS OR INFORMATION

Security screening requirements will be determined at the task order level.

(a) In addition to complying with any functional and technical security requirements set forth in the schedule and elsewhere in this BPA, the Contractor shall request that the Government initiate personnel screening checks and provide signed user nondisclosure agreements, as required by this clause, for each contractor employee requiring staff-like access (e.g. unescorted or unsupervised physical access or electronic access), specified at the task order level, to limited or controlled areas, systems, programs and data.

(b) The Contractor shall submit a properly completed set of investigative request processing forms for each such employee in compliance with instructions to be furnished by the Contracting Officer or his/her designated representative.

*Applicable forms will be furnished to the Contractor at time of task order award.*

(c) Depending upon the nature of the type of investigation necessary, it may take a period up to several months to complete complex personnel screening investigations. At the discretion of the Government, background screening may not be required for employees with recent or current favorable Federal Government investigations. To verify the acceptability of a non-Treasury, favorable investigation, the Contractor shall submit the forms or information needed, according to instructions furnished by the Contracting Officer.

(d) When contractor employee access is necessary prior to completion of personnel screening, each contractor employee requiring access may be considered for escort access. The Contractor shall promptly submit all requests for approval for escort access to the Contracting Officer or his/her designated representative so as not to endanger timely contract performance.

(e) The Contractor shall ensure that each contractor employee requiring access executes any nondisclosure agreements required by the Government prior to gaining staff-like access. The Contractor shall provide signed copies of the agreements to the Site Security Officer (SSO) for inclusion in the employee's security file. The Government will provide the name and location of the SSO after contract award. Unauthorized access is a violation of law and may be punishable under the provisions of Title 5 U.S.C. 552a, Executive Order 12356; Section 7211 of Title 5, United States Code (governing disclosures to Congress); Section 1034 of Title 10, United States Code, as amended by the Military Whistleblower Protection Act (governing disclosure to Congress by members of the military); Section 2302(b)(8) of Title 5, United States Code, as amended by the Whistleblower Protection Act (governing disclosures of illegality, waste, fraud, abuse or public health or safety threats); the Intelligence Identities Protection Act of 1982 (50 U.S.C. 421 et seq.) (governing disclosures that could expose confidential Government agents); and the statutes which protect against disclosure that may compromise the national security, including Sections 641, 793, 794, 798, and 952 of Title 18, United States Code, and Section 4(b) of the Subversive Activities Act of 1950 (50 U.S.C. Section 783(b)) and other applicable statutes.

(f) The Contractor shall notify the Contracting Officer's Technical Representative (COTR) or the Site Security Officer no later than the end of the day of the termination for cause of an authorized employee's access. The Contractor shall notify the COTR no later than ten days after an authorized employee no longer requires access for any other type of termination. Verbal notifications shall be confirmed in writing within thirty days.

## 1.4 IDENTIFICATION/BADGING REQUIREMENTS

During the period of this contract, access to Department of the Treasury facilities for contractor representatives shall be granted as deemed necessary by the Government. All contractor employees whose duties under this contract require their presence at any Treasury, or Treasury Bureau facility shall be clearly identifiable by a distinctive badge furnished by the Government. In addition, corporate identification badges shall be worn on the outer garment at all times. It is the sole responsibility of the Contractor to provide this corporate identification. Upon the termination of the employment of any contractor personnel working on this contract, all government-furnished identification shall be returned to the issuing office. All on-site contractor personnel shall abide by security regulations applicable to that site.

## 1.5 SECTION 508 COMPLIANCE

The Contractor must provide a comprehensive list of all offered specific electronic and information technology (EIT) products (supplies and services) that fully comply with Section 508 of the Rehabilitation Act of 1973, per the 1998 Amendments, and the Architectural and Transportation Barriers Compliance Board's Electronic and Information Technology Accessibility Standards at 36 CFR Part 1194. The Contractor must clearly indicate where this list with full details of compliance can be found (e.g., vendors or other exact web page location). The contractor must ensure that the list is easily accessible by typical users beginning five calendar days after award. The contractor must maintain this detailed listing of compliant products for the full contract term, including all forms of extensions, and must ensure that it is current within three calendar days of changes to his product line.

The vendor must ensure that all EIT products that are less than fully compliant are offered pursuant to extensive market research, which ensures that they are the most compliant products and services available to satisfy this solicitation's requirements.

For every EIT product accepted under this contract by the Government that does not comply with 36 CFR Part 1194, the contractor shall, at the discretion of the Government, make every effort to replace or upgrade it with a compliant equivalent product or service, if commercially available and cost neutral, on either the planned refresh cycle of the product or service, or on the contract renewal date, whichever shall occur first.

## 1.6. ADMINISTRATIVE INSTRUCTIONS

1.6.1 Requests For Payment/Submission Of Invoices.

a. The contractor may submit an invoice once every thirty (30) days to the Contracting Officer Technical Representative (COTR). The contractor shall have the invoice certified by the COTR. The contractor's invoice will be for one month. The contractor shall invoice only for the hours, travel and Other Direct Costs (ODCs) that are in direct support of contractor's efforts in performing the task/delivery order SOW. Hours in such invoice shall be identified by task/phase and by labor category. The amounts for labor shall be computed by multiplying the appropriate hourly rates prescribed in the Schedule by the number of direct labor hours performed with applicable discounts. Fractional parts of an hour may be payable on a prorated basis. Contractor shall substantiate vouchers by evidence of actual payment and by individual daily job timecards, or other substantiation as approved by the Contracting Officer. Government will not reimburse for overtime other than based on what was originally proposed and accepted at time of issuance of order and as indicated in the Schedule. ODCs and travel costs shall be identified by task/phase and shall include all necessary documentation supporting the charge(s). A copy of the government's document(s) accepting the covered services must accompany invoices submitted for payment. A copy of the invoice will be submitted to the addresses identified in the task/delivery order to the contracting officer at the same time it is submitted to the program manager. **Failure to comply with the procedures outlined above may result in payment being delayed.**

b. Invoices are to be emailed as soon as possible after the end of each calendar month to:

1. www.vendorpay@do.treas.gov;

2. Contracting Officer; and
3. COTR.

Submittal to "vendorpay" is considered the official invoice submittal; and it is through "vendorpay" that prompt payment compliance is tracked. Each copy of each invoice shall clearly identify the Contractor's Taxpayer Identification Number (TIN). The Contractor shall assure that a responsible official of the company signs the following statement on each invoice:

> "I certify that the services listed above have been performed in accordance with the contract and those personnel hours or other costs are true, correct, and have not been previously billed."
>
> ______________________________________________
>
> Typed Name and Signature

The Contract and Task Order Number shall be typed on each invoice. Payment will be made in accordance with the Prompt Payment Act (see FAR 52.232-25 Prompt Payment).

The invoice shall be approved by the Contracting Officer's Technical Representative (COTR). If requested by the Government, time cards or time sheets for each employee shall be provided as evidence of hours worked by each employee by Task Order. The time card or time sheet will indicate the date worked, number of hours worked, and the hourly rate for each employee.

All follow-up invoices shall be marked "Duplicate of Original." Contractor questions regarding payment information should be directed to the COTR.

The Contractor shall provide the COTR with an advance (pre-submittal) version of the invoice for review.

## 1.7 PERFORMANCE MONITORING

The Government shall monitor and evaluate the contractors overall performance and service delivery.

The Government may convene an Assessment Board to review, analyze, and evaluate the contractor's performance. The Board will also determine the disposition of extending each performance period, using the data, analysis, and evaluation performed. The Board membership will include:

a) Contracting Officer,
b) Contracting Officer's Technical Representative, and
c) Treasury OGC Management Staff.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

## 1.8 STAFFING PLAN

The contractor shall maintain the Staffing Plan initially submitted in the contractor's proposal. The staffing plan shall layout the approach, practices, and staffing to accomplish the requirements of this BPA as well as the specific requirements set forth in each Task Order. As such, the plan shall relate the staffing allocations by organizational or function units of the contractor team.

## 1.9 HOLIDAYS

***OBSERVANCE OF LEGAL HOLIDAYS AND EXCUSED ABSENCES***

a) The Government hereby provides NOTICE and Contractor hereby acknowledges RECEIPT that Government personnel observe the listed days as holidays:

| | |
|---|---|
| New Years Day | January 1 |
| Martin Luther King's Birthday | Third Monday in January |
| President's Birthday | Third Monday in February |
| Memorial Day | Last Monday in May |
| Independence Day | July 4 |
| Labor Day | First Monday in September |
| Columbus Day | Second Monday in October |
| Veterans Day | November 11 |
| Thanksgiving Day | Fourth Thursday in November |
| Christmas | December 25 |
| Inauguration Day | January 20 every four years |

b) In addition to the days designated as holidays, the Government observes the following days:

Any other day designated by Federal Statute;
Any other day designated by Executive Order; and
Any other day designated by the President's Proclamation.

c) It is understood and agreed between the Government and the Contractor that observances of such days by Government personnel shall not otherwise be a reason for an additional period of performance, or entitlement of compensation except as set forth within the individual Task Order. In the event the Contractor's personnel work during the holiday, they may be reimbursed by the Contractor, however, no form of holiday or other premium compensation will be reimbursed either as a direct or indirect cost, other than their normal compensation for the time worked. This provision does not preclude reimbursement for authorized premium pay, if applicable to this contract as stated in its individual Task Orders.

d) When the Federal, State, Local and other governmental entities grants excused absence to its employees, assigned Contractor personnel may also be dismissed. The Contractor agrees to continue to provide sufficient personnel to perform critical tasks already in operation or scheduled, and shall be guided by the instructions issued by the COTR.

e) In the event that Treasury personnel are furloughed, the contracting officer or the COTR will communicate contractual direction to the contractor regarding performance of work.

f) Nothing in this clause abrogates the rights and responsibilities of the parties relating to "stop work" provisions as cited in other sections of this contract. Primarily, work shall be performed at the Department of the Treasury facility or, upon approval, facilities within the Washington, D.C. metropolitan area. Occasional work may be performed at other field activity locations, including disaster recovery and/or continuity of operations locations. No locality differential payments are applicable to this contract.

**1.10 TASK ORDERS**

The following ordering procedures shall apply to all Task Orders (TOs) issued under this BPA.

When placing task orders, Treasury will not conduct competitions for individual task orders among BPA holders. However, Treasury will make an effort to ensure equitable distribution of work among BPA holders.

The standard ordering process is set forth below.

Treasury will order an approximately equally amount of work from each BPA holder. This will be achieved by alternating the award of task orders among all BPA holders, to the extent practicable.

Treasury will make its best efforts to adhere to the above process during the first 30 days following award of the BPAs. Exceptions to the standard ordering process may be made in consideration of conflicts of interest, geographical location of the contractors, and other relevant considerations.

After the first 30 days following BPA award, Treasury expects that it will continue to alternate task orders among BPA holders. However, Treasury may periodically adjust the allocation of work based on the pricing offered by the BPA holders, and the quality of their performance under the BPAs. Any such adjustments to the allocation of work will not result in more than 75% of the total work being allocated to any single firm.

BLANKET PURCHASE AGREEMENT

GSA FEDERAL SUPPLY SCHEDULE

## 1.11 INFORMATION SAFEGUARDS AND PRACTICES

The Contractor shall be responsible for compliance with Treasury for policy and practice regarding the storage and removal of electronic and printed materials considered sensitive in nature (i.e., system password and user identification access odes) from printers, desktops, laptops, furniture, presentation equipment, and any other form of information housing. This is so that the information is not accessible by unauthorized personnel and so that disposal follows Treasury information security practices. The contractor must ensure that contractor, subcontractor, or business partner personnel protect all sensitive and secure documents to the extent possible from either inadvertent or deliberate compromise.

## 1.12 SUPERVISION OF CONTRACTOR'S EMPLOYEES

a) Personnel assigned to render services under this contract shall at all times be under the direction and control of the Contractor Notwithstanding any other provisions of this contract, the Contractor shall at all times be responsible for the supervision of its employees in the performance of the service required hereunder.
b) During all times on government premises, the contractor's personnel shall comply with the rules and regulations governing conduct of personnel and operation of the facility.
c) If the contractor plans to employ any Non-English speaking personnel, he shall provide an on-site bi-lingual supervisor to serve as an interpreter.
d) Contractor personnel shall not at any time during the contract period be employees of the U.S. Government.

-------------------------------------------END OF BPA AGREEMENT------------------------------------

ATTACHMENT 1

ATTACHMENT 2

Attachment 2 – Statement of Work

The Department of the Treasury (Treasury) is seeking law firms to assist it in executing transactions under the TARP Capital Purchase Program. The contractor will have expertise in securities and financial institution law and regulations, and will be responsible for handling all or part of 4000-8000 transactions between Treasury and banks, savings associations and their holding companies ("financial institutions"). The investment agreements provided for Treasury to invest funds in such financial institutions in exchange for the issuance of preferred stock and warrants to Treasury by publicly traded financial institutions. The Contractor may also be responsible for handling transactions involving privately held financial institutions. The financial institutions will be located in all fifty states and potentially in U.S. possessions and territories. The Contractor will be responsible for: (1) reviewing executed investment agreements for legal sufficiency and completeness; (2) identifying insufficiencies or legal issues that require action before the transactions can be closed; (3) notifying and working with the financial institution and Treasury in resolving those issues; and (4) conducting the closing of the transaction.

ATTACHMENT 3

## CONFLICTS OF INTEREST

(a) Treasury HAS NOT WAIVED any potential conflicts of interest as defined by Rules 1.7—1.11 of the ABA's Model Rules of Professional Conduct. Further, Contractor agrees that its future attorney-client relationship with Treasury may be governed by conflict of interest rules more restrictive than the ABA's Model Rules that may be issued by the Secretary of the Treasury pursuant to Section 108(b) of the Emergency Economic Stabilization Act of 2008.

(b) Failure to make full and timely disclosure of actual or potential conflicts of interest, or matters that may present the appearance of a conflict, as well as failure to comply with Treasury conflicts of interest policies and procedures are extremely serious matters. Such failures may subject the Contractor to corrective action including but not limited to: (1) refusal to waive a conflict; (2) termination of this contract for default; (3) debarment of the contractor from federal contracting; (4) referral to the appropriate state licensing authorities; and, in appropriate cases, and (5) civil or criminal actions.

(c) It is solely within the discretion of the Treasury Department to determine whether or not a conflict of interest exists. Even the appearance of a conflict may result in the denial of a waiver or other appropriate actions. In the event that matters are transferred pursuant to the corrective actions listed above, Contractor is expected to follow Treasury Department policies and procedures and to cooperate fully in the orderly transfer of such matters.

(d) In addition to any other applicable restrictions, the Contractor shall agree: (1) not to review capital purchase documentation of clients that the Contractor currently represents; (2) not to represent any institution whose capital purchase documentation the Contractor reviews for the duration of the period that Treasury holds equity in that institution under the Capital Purchase Program; (3) not to represent any parties in a claim against the United States with respect to the Capital Purchase Program during or following the term of the contract; (4) to have all attorneys assigned to work under this agreement receive ethics training in consultation with the Treasury Department; and (5) to have all attorneys assigned to work under this contract enter into agreements at the inception of the contract prohibiting such attorneys from reviewing capital purchase documentation of an institution in which the attorneys, their spouses, their minor children, or their other family members with whom the attorney has a close personal relationship, have a personal, business, or financial interest. Such agreements with individual reviewing attorneys shall also require the attorneys to disclose at the inception of the contract any and all personal, business, or financial interests of the individual, his or her spouse, minor children, or other family members with whom the individual has a close personal relationship that could adversely affect (i) the individual's ability to perform under this contract, (ii) his or her objectivity or judgment in such performance, or (iii) his or her ability to represent the interests of the Treasury. Items (4) and (5) above shall apply to attorneys, and also to any paralegals who would perform significant work under a task order.

(e) Prior to beginning work on a task order, the Contractor shall review the submissions required by section (d)(5) of this clause for personal conflicts of interest, and certify in writing to Treasury that no such conflicts exist. In making this determination, the Contractor may rely on the information obtained from the individuals, unless the Contractor has reason to believe that the information provided is false or inaccurate.

(f) The Contractor shall include this clause in all subcontracts, consultant agreements, and in lower tier subcontracts unless a waiver is requested from, and granted by, the Contracting Officer.

**PUBLICITY REQUIREMENTS**

The Contractor agrees to submit within 6 hours of contract or task order award a .pdf file of the fully executed contract or order with all proprietary information redacted for the purposes of having the redacted contract made public at the sole discretion of the Department of the Treasury. The Contractor shall supply the point of contact to work directly with the Public Affairs office of the Department of the Treasury.

**CONFIDENTIALITY**

The Contractor recognizes that, in performing this contract, the Contractor may obtain access to non-public information that is confidential or proprietary in nature. Except as permitted by the contract, the Contractor agrees that it, its employees, its subcontractors, and its subcontract employees will not disclose to any third party, or otherwise use, any information it obtains or prepares in the course of performance of this agreement for any purpose other than to perform work under the contract without first receiving written permission from the Contracting Officer. The Contractor shall secure information received from or prepared or gathered for the Treasury Department under this contract in a secure location with access limited to only those personnel with a "need to know."

# Assistant Secretary Swagel to Hold Monthly Economic Briefing

11/5/2008

HP-1252

Assistant Secretary for Economic Policy Phillip Swagel will hold a media briefing to review economic indicators from the last month and discuss the state of the U.S. economy. The event is open to the media:

**Who**
Assistant Secretary for Economic Policy Phillip Swagel

**What**
Monthly Economic Briefing

**When**
Friday, November 7, 11:00 a.m. EST

**Where**
Treasury Department
Media Room (4121)
1500 Pennsylvania Avenue, NW
Washington, D.C.

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

# Special Envoy for China and the Strategic Economic Dialogue Alan Holmer Remarks On the Future of U.S.-China Economic Relations at The Johns Hopkins University-Nanjing University Center for Chinese and American Studies

11/5/2008

HP-1253

**NANJING, CHINA** - I am honored to be here in Nanjing today and at The Johns Hopkins University-Nanjing University Center for Chinese and American Studies, to speak about the future of the economic relationship between the United States and China.

As the capital of China during several historic periods, Nanjing not only holds a prominent place in Chinese history and culture, it has also contributed significantly to relations between the United States and China. Just before leaving the United States I spoke with former Ambassador to China Stapleton Roy, who also serves as Chairman of the Hopkins-Nanjing Advisory Council. As some of you know, Ambassador Roy was born in Nanjing and raised in China. Reflecting on your city's historical place in U.S.-China relations, Ambassador Roy recalled that the U.S. diplomatic mission in China was located in Nanjing from 1928 until 1937, and from 1945 to 1949. The first American ambassador to China was stationed in Nanjing in 1935, when the U.S. legation there was upgraded to an embassy. After the end of World War II, it was in Nanjing that General George Marshall met with Zhou Enlai in 1946 as part of the unsuccessful U.S. effort to negotiate peace between the KMT and the Chinese Communists. The U.S. embassy remained in Nanjing until 1949.

Just after normalization of U.S.-China relations, now thirty years ago, visionary leaders from both our countries envisioned a graduate school dedicated to improving relations between China and the West through the development and training of future leaders – young people who are not only fluent in each others' languages, but are also equipped to understand each others' perspectives and through their careers committed to building stable and productive relations. Now, more than ever, we need institutions like the Hopkins-Nanjing Center. The talent and wisdom of new generations of American and Chinese leaders educated here will contribute to prosperous and stable U.S.-China relations.

Today, as I speak about the future of U.S.-China economic relations, I would like to challenge and encourage you as future leaders to seize the vision the Hopkins-Nanjing Center represents.

**The Importance of the U.S.-China Relationship**

One of the most important decisions facing the new American President will be how to respond to China's emergence as a global power. Possibly the most consequential economic question of the 21st century for the United States and for China is whether we get our economic relationship "right."

Our economies are intricately inter-linked. Last year the United States and China combined for more than thirty percent of worldwide gross domestic product. Chinese exports to the United States in 2007 accounted for 9.5 percent of Chinese GDP; China is the largest supplier of United States imports. China is now the United States' third largest export market; in the past decade, our exports to China have increased six times as fast as our exports to the rest of the world. Investment flows between our two countries are also expanding rapidly.

And our inter-relationship goes well beyond trade and investment. U.S. and Chinese interests increasingly overlap on virtually every international issue – from global financial developments, to national security, to climate change.

While some in America see China as a threat that must be countered or contained, I believe that the only path to success with China is through engagement. We must recognize that China's growth is an opportunity for U.S. companies and consumers, for our producers, exporters and investors. A stable, prosperous and peaceful China is in the best interest of the Chinese people, the American people and the rest of the world.

What should be our vision for our future relationship? What does it mean to get the relationship "right"? I see a future in which our ability to work together matches the degree to which our economies are already so deeply integrated. I see a future in which individuals and leaders in each nation communicate well, grow in trust, work through misunderstanding and crises, and expand -- where possible -- common interests, while recognizing distinct national goals and interests. In this vision, I also see people in each nation recognizing our commonalities -- that we mutually benefit from trade, investment, and deepening exchange.

This is the vision the leaders of our two countries promote through the Strategic Economic Dialogue. It is a vision we must continue to pursue in the months and years to come.

**Recent Financial Market Developments**

Our interdependence has become all the more apparent during the recent period of worldwide financial turmoil.

Addressing these developments requires the dramatic steps we are taking in the United States, and it requires close international collaboration and cooperation. U.S. officials have been in close contact with Chinese leaders, as well as with leaders of many other nations. This has included frequent calls between President Bush and President Hu, Treasury Secretary Paulson and Vice Premier Wang, and Treasury Undersecretary McCormick with his counterparts in the Chinese government. These conversations have been useful and constructive. And we welcome recent public statements by President Hu and Premier Wen about the constructive and cooperative role China has been playing in global efforts to deal with the current financial market turmoil.

In just over a week, President Bush will host a meeting in Washington with President Hu and 18 other world leaders. We expect the leaders will discuss the underlying causes of the financial crisis, review progress being made to address the crisis, begin developing principles of reform needed to ensure it does not happen again, and charge working groups to develop recommendations to be considered by leaders in a subsequent summit. In our view, leaders should also discuss the adverse effects of the current crisis on emerging economies and developing nations.

The summit also provides an opportunity to discuss how to enhance our commitment to open, competitive economies as well as trade and investment liberalization. Strengthening these underpinnings of capitalism is, and will continue to be, the best way to improve standards of living and assure future prosperity for developed and developing nations alike.

**Strategic Economic Dialogue**

Because of the importance of our bilateral relationship, President Bush and President Hu launched the Strategic Economic Dialogue (SED) in September of 2006. The Special Representatives of the two Presidents are Vice Premier Wang for China and Secretary Paulson for the United States. When the SED was first launched, few people thought much progress would be possible because of political changes in both countries.

But our joint approach has proven effective and has achieved important, tangible results, despite the challenges. Over the past two years we have built a strong foundation for this dialogue by focusing on policy areas in which China's reform agenda and U.S. interests intersect. U.S.-China relations are more productive today than ever before.

The SED has found new and constructive ways to address some of the most significant matters in our economic relationship --- including growth imbalances, financial stability, energy security and environmental sustainability, maintaining open trade and investment policies, and product safety. Managing these challenges is vital to the United States, China, and to the future of the global economy.

**Establishing a Culture of Collaboration**

Perhaps most importantly, we have established new habits of cooperation and a culture of collaboration with our colleagues in China, across all economic ministries, and at both political and career levels. Despite our long history of interaction, people in our two countries occasionally have shown a stunning ability to misunderstand each other. In the SED we have acted to lessen misperceptions and miscommunication between our countries. The mere creation and sustained attention of the SED demonstrates to the people of both countries that the United States values a stable, prosperous, and peaceful China. We believe this kind of China is in the U.S. national interest.

**Addressing Time-Sensitive, Current Issues**

There is no better example of the power and utility of a Strategic Economic Dialogue based on mutual trust than our recent close and frequent communication and cooperation with Chinese leaders as we address the challenges in the financial markets.

We have also worked to sustain support for open economies in both of our countries. Trade and investment, once the glue of U.S. -Chinese relations, now also represent a source of increased tension. Any dynamic economy that is constantly creating new, higher-value jobs 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 concentrated 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 both countries worse off, sacrificing future job opportunities and higher standards of living. Through the SED we have addressed short-term and long-term issues, kept our economic relationship on an even keel, and avoided legislation in the U.S. Congress that would have been harmful and counterproductive.

We have also addressed product safety, an issue that has placed the "China brand" at risk. Last December our two countries used the SED to achieve two Memoranda of Agreement: one on food and feed, another on medicines and medical devices. We now need to intensify our work together to enhance China's regulatory and legal infrastructure, to help China build quality into each stage of the manufacturing and distribution process. A useful step will be the formal establishment later this month of offices in China for the U.S. Food and Drug Administration in Beijing, Shanghai, and Guangzhou.

**Addressing Long-Term, Strategic Issues**

While the SED has provided an important mechanism to address time-sensitive, current issues, our nations' leaders have also grappled with the most significant, challenging, and strategic issues in our bilateral economic relationship, issues that will be with us not just this year, but for years to come. Such issues include, for example, managing financial and macroeconomic cycles; sustaining strong and stable economic growth; strengthening energy security and environmental cooperation; reforming international economic and financial institutions, maintaining open markets for trade and investment; encouraging innovation, and advancing the rule of law and transparency. In future years we need to maintain and grow the quality and depth of our current dialogue on these subjects.

**Maintaining Open Markets**

I have been deeply involved in international economic issues for over 25 years, beginning in the administration of President Reagan – nearly as long as China's "reform and opening" period. 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 lower inflation. Openness is not a zero-sum game; it enhances efficiency, productivity, and competitiveness for all sides.

There is no better example of this principle than the experience of China. China's reform and opening over the past three decades have produced one of the most dramatic economic transformations in world history.

**Open Investment**

American investors in China, and Chinese investors in America, sometimes question whether the other country is truly open to investment and provides adequate legal protections. To answer this question, we sent a powerful and clear signal at the June SED meeting by launching negotiations of a U.S. - China bilateral investment treaty. Through these negotiations, we seek to assure our people and the world that our two nations welcome investment and will treat each other's investors in a fair and transparent manner. And we will work even harder to resolve a critical issue for American companies working in China --- better enforcement of intellectual property laws, which will protect those companies and encourage further foreign investment in China, while also helping China on its path to become an innovation society and accelerating the development and competitiveness of its economy.

In future years, the economic health of both of our countries will depend in significant part on whether we keep our markets open to trade and investment.

**Energy and Environmental Cooperation**

Economic growth must also be sustainable, both economically and environmentally. In this regard, one of the SED's major achievements is the Ten Year Energy and Environment Cooperation Framework. This framework is a bilateral mechanism to elevate and intensify our cooperation to create a new energy-efficient model for sustainable economic development and to address the factors that cause climate change. Greater breakthroughs can be expected in the years ahead, and this framework provides the next U.S. administration a critically important platform for engagement with China.

**Balancing Economic Growth**

Another key part of sustainable economic growth is the effort of China's top leaders to transition to an economy that is more services and consumption-oriented, and less reliant on low-value added manufacturing, and that depends more on the skills and resourcefulness of the Chinese people and less on material inputs and natural resource depletion and demand in foreign markets. In addition, strong consumption-led growth provides China the surest guarantee of sustained economic growth in the face of weaker growth in China's trading partners.

We continue to believe that more market-based pricing, including for interest rates and exchange rates, will help China achieve its goal of more harmonious and balanced growth. And the SED has provided a useful forum for discussing China's exchange rate policy; we are pleased that since July of 2005 China has appreciated the RMB by over 20 percent against the dollar over the past several months, and has appreciated the RMB substantially on a trade-weighted basis, i.e., against an average of the currencies of China's major trading partners. While we understand that circumstances have changed for China in recent months, we continue to believe that it is in China's interest to move further in the direction of a more market-determined exchange rate. Such action would provide Chinese officials with greater tools to effectively manage the economy and, further, help facilitate a needed reallocation of capital towards production for the domestic market.

**Financial Sector Liberalization**

In the financial sector, China is in the midst of developing and opening up its institutions. During the recent global turmoil, we have learned that the U.S. financial system is in need of reform. To help rebuild the strength and confidence in our markets, the United States has worked to implement the findings of international experts in the Financial Stability Forum (FSF) and U.S. experts in the President's Working Group on Financial Markets (PWG). The Financial Stability Forum recommendations are applicable to the financial markets around the world, and the United States is committed to implementing them in full.

As China proceeds with financial sector development, it can and should benefit from the lessons the United States and other countries have learned from the challenges in our financial markets, and we are happy to share them. But it would be unfortunate if, as a result of this turmoil, policymakers in China mistakenly abandon their pursuit of financial sector innovation that has been so important to supporting China's growth in productivity and macroeconomic stability.

**Conclusion**

When I became Special Envoy for China and the Strategic Economic Dialogue in February of 2007, then-Vice Premier Wu Yi encouraged me to visit the parts of China beyond Beijing and Shanghai. I have happily followed her advice. In the past 18 months, I have been privileged to visit Shenyang, Qinghai, Xi'an, Chengdu, Guangzhou, Shenzhen, Hong Kong, Ningbo, and Yingxiu, a small town at the epicenter of the earthquake in Sichuan Province. My trips have included visits to rural villages to see both the opportunities and the challenges you face in promoting balanced, harmonious growth. I was particularly eager to travel across your great nation because, while there is a huge amount of information about the United States in China, and about China in the United States, there is not enough genuine understanding, and even less wisdom about how we should manage our relations together.

In that context, I was particularly eager to speak here today because I knew I would be with many future leaders of the U.S.-China relationship. I appreciate your attention. I hope that you share the vision I spoke of earlier, a relationship between our two countries based on engagement, communication, trust, working through issues, understanding, and wisdom.

During the past two years we have seen in both our countries a period of change and turmoil: political and governmental change in both China and the United States; turmoil in global financial markets; and protectionist trends in both of our countries among those who would take our relationship in unhelpful directions.

Throughout that period, the Strategic Economic Dialogue has provided a strategic, long-term, steadying forum and mechanism through which we can at the most senior levels of our two governments constructively address the most important issues we face. We have established an impressive body of work. Dialogue between the United States and China is now more productive and sophisticated than ever before. Through the SED we have succeeded in establishing a culture of collaboration; addressed time-sensitive, current issues, such as financial markets, economic nationalism, and product safety; grappled with the most important long-term issues in our relationship; promoted policies for open markets and investment; signed a Ten Year Framework on Energy and Environmental Cooperation; worked to rebalance economic growth and modernize the financial sector.

As Secretary Paulson has said, we hope that the next U.S. President will expand on the SED and take U.S.-China relations to the next level. At the same time, leaders in both of our nations' capitals understand that if the SED is to be sustained, it must be more than talk; it must continue to yield specific, tangible results, what we call signposts along the path toward transformational reform. We look forward to further progress in the on-going discussions at our next meeting of the SED in Beijing in December. Thank you.

## Under Secretary Levey to Hold Press Conference on Iran

11/6/2008

HP-1254

Under Secretary for Terrorism and Financial Intelligence Stuart Levey will make an announcement on Iran today during press conference at the Treasury Department.

The following event is open to credentialed media:

**Who**
Under Secretary for Terrorism and Financial Intelligence Stuart Levey

**What**
Press Conference on Iran

**When**
Thursday, November 6, 3:30 p.m. EST

**Where**
U.S. Department of the Treasury
Media Room--4121
1500 Pennsylvania Ave., NW
Washington, DC

**Note**
Media without Treasury press credentials planning to attend should contact Frances Anderson in Treasury's Office of Public Affairs at (202) 622-2960 with the following information: name, Social Security number and date of birth. This information may also be emailed to frances.anderson@treasury.gov.

## Statement by Secretary Henry M. Paulson, Jr. on Transition

11/6/2008

HP-1255

**Washington, DC--** Treasury issued the following statement by Secretary Henry M. Paulson, Jr. following President Bush's Cabinet meeting this morning to discuss efforts to ensure a seamless transition to the next Administration:

"I congratulate Senator Obama on the election and look forward to working with his team to ensure that there is a smooth and effective transition. A methodical and orderly transition is in the best interests of the financial markets and Treasury is committed to making sure that the incoming team can hit the ground running in January. The next Secretary will also benefit from the support of an exceptional staff of hard-working career employees at Treasury who are critical to the important work before the Department."

## Prepared Remarks of Under Secretary for Terrorism and Financial Intelligence Stuart Levey

11/6/2008

HP-1256

**On the Revocation of Iran's U-Turn License**

**Washington, DC**--In September 2006, the Treasury announced that it was cutting off Iran's Bank Saderat from the U.S. financial system because the bank was facilitating the transfer of millions of dollars every year to terrorist groups. Along with that move, we launched a campaign to warn the world about how Iran's threat to our security also posed a threat to the integrity of the international financial system.

Since that time, we have shared information with foreign governments and financial institutions about how Iran is using its banks to finance its nuclear and missile programs and terrorist groups. We have provided reliable information to back up our words, demonstrating that even seemingly benign business with Iran should be cause for concern.

Combined with this outreach, the United States and a broad multilateral coalition have taken action against individuals and entities that support Iran's illicit activities. The United Nations Security Council has now adopted five resolutions against Iran, requiring sanctions on those involved in the regime's nuclear and missile programs and calling for vigilance when dealing with all Iranian banks because of the risks they pose. Many allies, including the European Union and Australia, have taken especially strong action to implement those resolutions – for example, by designating Iran's Bank Melli.

At the same time, many private financial institutions and companies worldwide have voluntarily shunned business with Iran. Banks see Iran's behavior as posing an unacceptable risk to their reputations, and they would rather forgo the business and preserve their integrity. Back in September 2006, I could count on one hand the major banks that had cut off or dramatically reduced their business with Iran. Now, there are only a few that have not done so.

There is now a global consensus that Iran poses an unacceptable threat to the international financial system. The Financial Action Task Force (FATF), which has members representing 32 jurisdictions and is the world's premier standard-setting body on combating money laundering and terrorist financing, issued its fourth warning on Iran last month, calling for countries worldwide to strengthen measures to protect their financial sectors from this threat.

In the face of all of this, Iran has chosen to continue its pursuit of a nuclear capability and ballistic missiles and to engage in the deceptive financial conduct necessary to do so. This conduct includes stripping Iranian names from transactions to hide Iran's involvement. Iran also uses front companies and non-designated Iranian banks to conduct business for designated proliferation entities, and it misuses bank accounts it holds in non-Iranian banks. The fact sheet we are providing today gives an overview of Iran's wide-ranging deceptive financial conduct.

As members of the FATF, we are fulfilling our obligation to strengthen measures to protect our financial sector from those risks. Therefore, today we are revoking the "U-turn" license for Iran, thus terminating the last general entry point for Iranian banks – both state-owned and private – to the U.S. financial system. U-turn transactions allowed U.S. banks to indirectly process payments involving Iran if they began and ended with a non-Iranian foreign bank. Given Iran's conduct, it is necessary to close even this indirect access.

In recent months, many U.S. institutions have refused to host these U-turn transactions for Iran. Still, the exemption was used by Iran as a hook to solicit foreign banks to process transactions through the United States on its behalf, sometimes with requests to substitute another bank or code word for the Iranian institution. With today's action, Iran's potential to manipulate U.S. financial institutions has been significantly curtailed.

We encourage all countries, both FATF members and others, to take action to protect the integrity of their financial systems from Iran.

Today's action is not aimed at the innocent people of Iran. The Iranian people are already struggling under the regime's gross economic mismanagement, which has led to spiraling inflation that is now at 30 percent and an unemployment rate that many experts believe to be well over 20 percent.

To ensure that we can continue to help the Iranian people, today's action does not affect otherwise permissible payments such as for shipments of food and medicine, family remittances, and the export of informational materials to Iran, among others.

The Iranian regime's policies have ensured Iran's political, economic and financial isolation. Iran is still faced with two clear paths: to continue as a financial pariah, isolated from the world, or to seize the benefit and opportunity that reintegration into the global community would bring. The choice is Iran's to make.

# Treasury Revokes Iran's U-Turn License

11/6/2008

HP-1257

**Washington, DC**--The U.S. Department of the Treasury today announced that it is revoking the "U-turn" license for Iran, further restricting Iran's access to the U.S. financial system.

Treasury's move today follows a series of U.S. government actions to expose Iranian banks' involvement in the Iranian regime's support to terrorist groups and nuclear and missile proliferation.

Prior to today's action, U.S. financial institutions were authorized to process certain funds transfers for the direct or indirect benefit of Iranian banks, other persons in Iran or the Government of Iran, provided such payments were initiated offshore by a non-Iranian, non-U.S. financial institution and only passed through the U.S. financial system en route to another offshore, non-Iranian, non-U.S. financial institution. As a result of today's action, U.S. financial institutions are no longer allowed to process these U-turn transfers.

The Treasury Department previously designated Iranian state-owned banks Melli, Mellat, Sepah, Future Bank and the Export Development Bank of Iran for their roles in Iran's weapons proliferation activities, as well as Bank Saderat for providing support to terrorism. While these banks are already prohibited from taking advantage of the U-turn authorization, today's action ends this exception for all remaining Iranian banks, both state-owned and private, including the Central Bank of Iran.

As a member of the Financial Action Task Force (FATF), the United States today fulfilled its obligation to strengthen measures to protect the financial sector from the risks posed to the international financial system by Iran. In October 2008, FATF issued its fourth statement declaring that Iran continues to "pose a serious threat to the integrity of the international financial system" and called for countries worldwide to strengthen measures to protect their financial sectors from this threat.

To ensure that transactions relating to humanitarian aid for the Iranian people and other legitimate activities continue to flow, today's action will not affect funds transfers by U.S. financial institutions arising from several types of underlying transactions, including:

- Payment for the shipment of a donation of articles to relieve human suffering;
- A non-commercial remittance to or from Iran (e.g., a family remittance not related to a family-owned enterprise);
- The exportation to Iran or importation from Iran of information and informational materials;
- Travel-related remittances; and
- An underlying transaction authorized by Treasury's Office of Foreign Assets Control (OFAC) through a specific or general license.

Allowable funds transfers under specific or general OFAC licenses would include: payments arising from over-flights of Iranian airspace; legal services; intellectual property protection; and authorized sales of agricultural products, medicine, and medical devices to Iran.

This action will take effect when the amendment to the regulations is published in the Federal Register on November 10, 2008.

# Fact Sheet: Treasury Strengthens Preventive Measures Against Iranp1258

11/6/2008

HP-1258

On October 16, the Financial Action Task Force (FATF), which has members representing 32 jurisdictions and is the world's premier standard-setting body for anti-money laundering and counter-terrorist financing (AML/CFT), warned for the fourth time about the risks posed to the international financial system by continuing deficiencies in Iran's AML/CFT regime. The FATF called for all countries to strengthen preventive measures to protect their financial systems from this risk. Additionally, the UN Security Council called upon all states in March 2008 to exercise vigilance over the activities of financial institutions in their territories with all Iranian banks.

Consistent with these multilateral calls for action, the Treasury Department is revoking the "U-turn" general license today to protect U.S. financial institutions individually, and the U.S.financial system as a whole, from the significant terrorist financing and proliferation risks posed by Iran. This regulatory action will close the last general entry point for Iran to the U.S. financial system.

Iran's access to the international financial system enables the Iranian regime to facilitate its support for terrorism and proliferation. The Iranian regime disguises its involvement in these illicit activities through the use of a wide array of deceptive techniques, specifically designed to avoid suspicion and evade detection by responsible financial institutions and companies. Iran also is finding ways to adapt to existing sanctions, including by turning to non-designated Iranian banks to handle illicit transactions.

The Treasury Department is taking a range of measures, including today's action, to counter these deceptive activities. The Treasury Department encourages all jurisdictions to adopt robust preventive measures consistent with the FATF warnings and relevant UN Security Council Resolutions (UNSCRs).

**Iran Misuses the International Financial System to Support Terrorism**

Iran is the world's most active state sponsor of terror. The support provided by the regime to terrorist groups includes financing that is routed through the international financial system, especially through Iranian state-owned banks.

- **Iran's Support to Terror.** The Department of State designated Iran as a state sponsor of international terrorism in 1984, and Iran remains the most active of the listed state sponsors of terrorism, routinely providing substantial resources and guidance to multiple terrorist organizations. For example, Hamas, Hizballah, and the Palestinian Islamic Jihad (PIJ) maintain representative offices in Tehran to help coordinate Iranian financing and training of these groups.

- **Iran's IRGC and IRGC-Qods Force Support Terrorist Groups.** Elements of Iran's Islamic Revolutionary Guard Corps (IRGC) have been directly involved in the planning and support of terrorist acts throughout the world, including in the Middle East, Europe and Central Asia, and Latin America. The IRGC-Qods Force, which has been designated under Executive Order 13224 for providing material support to the Taliban and other terrorist groups, is the Iranian regime's primary mechanism for cultivating and supporting terrorist and militant groups abroad. Qods Force-supported groups include: Lebanese Hizballah; Palestinian terrorists; certain Iraqi Shi'a militant groups; and Islamic militants in Afghanistan and elsewhere. The Qods Force is especially active in the Levant, providing Lebanese Hizballah with funding, weapons and training. It has a long history of supporting Hizballah's military, paramilitary and terrorist activities, and provides Hizballah with more than $100 to $200 million in funding each year.

The Qods Force continues to provide the Taliban in Afghanistan with limited weapons, funding, logistics and training in support of anti-U.S. and anti-coalition activities.

- **Iran Uses its Banks to Finance Terrorism**. In a number of cases, Iran has used its state-owned banks to channel funds to terrorist organizations. Between 2001 and 2006, Bank Saderat transferred $50 million from the Central Bank of Iran through Bank Saderat's subsidiary in London to its branch in Beirut for the benefit of Hizballah fronts that support acts of violence. Hizballah also used Bank Saderat to send funds to other terrorist organizations, including Hamas, which itself had substantial assets deposited in Bank Saderat as of early 2005. The Treasury Department designated Bank Saderat under E.O. 13224 for providing financial services to Hizballah, Hamas and PIJ. Australia has also designated Bank Saderat. Iran's Bank Melli, which has been designated by the United States under E.O. 13382 for proliferation-related activities, was used to transfer at least $100 million to the IRGC-Qods Force between 2002 and 2006.

- **Iran Lacks a Counter-Terrorist Financing Legal Regime.** In addition to its regime-directed support to terrorist organizations, Iran continues to lack a legal framework to counter the risk of terrorist financing and has not indicated a willingness to address this deficiency. The FATF's October statement on Iran notes that, while Iran has taken some steps towards implementing an anti-money laundering regime, there is a lack of even such a minimal "corresponding effort" by Iran in the area of counter-terrorist financing.

**Iran Misuses the International Financial System to Facilitate Proliferation**

- **Iran Continues to Pursue Nuclear Capabilities and Develop Ballistic Missiles**. In addition to its active support to terrorist and militant activities, Iran continues to defy the international community by pursuing nuclear capabilities and developing ballistic missiles in violation of five UNSCRs. Iran's failure to comply with these various resolutions has resulted in the UN Security Council's imposing sanctions against Iran. These have included specific provisions aimed at preventing Iran from abusing banks and the international financial system to pursue nuclear capabilities and develop ballistic missiles.

- **Iran Uses its Banks to Finance its Nuclear and Missile Programs.** Multiple Iranian financial institutions have been implicated in facilitating Iran's nuclear and ballistic missile programs.

➢**Bank Sepah.** Iran's state-owned Bank Sepah has been designated in the United States under E.O. 13382 and by the UN Security Council under UNSCR 1747. Bank Sepah has provided direct and extensive financial services, such as arranging financing and processing dozens of multi-million dollar transactions, for the Shahid Hemmat Industries Group (SHIG) and the Shahid Bakeri Industries Group (SBIG), two Iranian missile firms designated by the UN Security Council in UNSCR 1737 and identified by President Bush in the Annex to E.O. 13382 for their direct roles in advancing Iran's ballistic missile programs. Bank Sepah also has provided financial services to SHIG's and SBIG's parent entity, Iran's Aerospace Industries Organization (AIO), which also was identified by President Bush in the Annex to E.O. 13382 for its role in overseeing all of Iran's missile industries.

➢**Bank Melli.** Iran's largest state-owned bank, Bank Melli, has facilitated numerous purchases of sensitive materials for Iran's nuclear and missile programs on behalf of UN-designated entities. In doing so, Bank Melli has provided a range of financial services to known proliferators, including letters of credit and the maintenance of accounts. The United States, the European Union, and Australia have designated Bank Melli.

➢**Bank Mellat.** Iran's state-owned Bank Mellat has provided banking services in support of Iran's nuclear entities, namely the Atomic Energy Organization of Iran (AEOI) and Novin Energy Company. Bank Mellat, which was designated pursuant to E.O. 13382 in October 2007, has serviced and maintained AEOI accounts, mainly through AEOI's financial conduit, Novin Energy. Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program since at least 2003.

➢**Export Development Bank of Iran.** On October 22, 2008, the Treasury Department designated the Export Development Bank of Iran (EDBI) under E.O. 13382 for providing or attempting to provide financial services to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL), which had been designated by both the European Union and the United States for its involvement in Iranian proliferation activities. Some MODAFL scientists and officials have also been designated by the UN. The EDBI provides financial services to multiple MODAFL-subordinate entities that permit these entities to advance Iran's WMD programs. Furthermore, the EDBI has facilitated the ongoing procurement activities of various front companies associated with MODAFL-subordinate entities. In addition, since Bank Sepah's designation by the United States and the UN Security Council, the EDBI has served as one of the leading intermediaries handling Bank Sepah's financing, including WMD-related payments. The EDBI has also facilitated financing for other proliferation-related entities sanctioned under U.S. and UN authorities.

- **International Focus on Proliferation Risks Associated with Iranian Financial Institutions.** The role that Iranian financial institutions play in Iranian proliferation activities is underscored by UNSCR 1803, which was adopted in March 2008 and calls upon states to exercise vigilance over the activities of their financial institutions with all Iranian banks. The FATF issued guidance in October 2008 to assist countries in implementing this provision. That guidance recommends that jurisdictions encourage their financial institutions to take strong preventive measures for the mitigation of risks posed by Iranian banks, including refusing to process transactions involving Iranian banks when full information regarding the parties to the transaction is unavailable. The FATF guidance also recommends that jurisdictions encourage their financial institutions to reassess, and if necessary, terminate correspondent relationships with Iranian banks, and take steps to satisfy themselves that their correspondent relationships with non-Iranian financial institutions are not used to circumvent the risk-mitigation practices in place for Iranian banks.

**Iran Uses Deceptive Financial Practices to Evade Sanctions**

- **Iranian Commercial Banks.** It has been a standard practice for Iranian financial institutions to conceal their identity to evade detection when conducting transactions. For example, Bank Sepah has requested that its name be removed from transactions in order to make it more difficult for intermediary financial institutions to determine the true parties to a transaction. Following the designation of Bank Sepah under UNSCR 1747, Bank Melli took precautions not to identify Bank Sepah in transactions. Bank Melli also has employed similar deceptive practices to obscure its involvement from the international banking system when handling financial transactions on behalf of the IRGC. In addition, when Iranian assets were targeted in Europe, branches of Iranian state-owned banks in Europe took steps to disguise ownership of assets on their books in order to protect assets from future actions.

- **Central Bank of Iran.** The Central Bank of Iran (CBI), the sole Iranian entity that regulates all Iranian banks, has not only engaged in deceptive practices itself – such as asking for its name to be removed from transactions – but has also encouraged such practices among Iran's state-owned banks. For example, prior to EU and UN sanctions, the CBI attempted to help Banks Sepah and Melli protect their assets from being frozen. Later, the CBI instructed non-sanctioned Iranian state-owned banks to issue payment instructions on behalf of Sepah in order to circumvent sanctions. In the case of Bank Melli, the CBI provided substantive assistance to minimize the impact of sanctions. In fact, between January and March 2008, the CBI handled tens of millions of dollars in transactions to and from the accounts of U.S.- and UN-designated banks held at the CBI.

- **Use of Front Companies and Misuse of Bank Accounts.** Iran hides behind front companies and intermediaries to engage in ostensibly legitimate financial and commercial transactions that are actually related to its nuclear or missile programs. Iranian entities form front companies outside of Iran for the sole purpose of exporting dual-use items to Iran that can be used in these programs. These front companies enable the regime to obtain materials that the country of origin would typically prohibit from being exported to Iran. Iran also has a history of using accounts set up for one purpose to facilitate activities with designated entities.

- **Use of Money Service Business Accounts.** Iran also has exploited its relationship with certain foreign money service businesses, capitalizing on a business model where the absence of an ongoing account relationship may mean that less information is collected on certain transactions.

**Effect of the Revocation of U-Turn License**

OFAC has revoked the authorization of "U-turn" transfers for the direct or indirect benefit of Iran, through an amendment of the Iranian Transactions Regulations, 31 CFR part 560, to narrow the scope of existing § 560.516. This action affects the "U-turn" class of funds transfers, which are so named because, while they are conducted on behalf of Iranian account holders and banks or in connection with Iran-related transactions, they only pass through the U.S. financial system on their way from one offshore non-Iranian financial institution to another.

As a result of today's action, U.S. depository institutions are no longer allowed to process "U-turn" transfers to or from Iran, or for the direct or indirect benefit of persons in Iran or the Government of Iran. The prohibition on U-turns applies not only to state-owned Iranian banks and the Central Bank of Iran, but also to privately-owned Iranian banks, Iranian companies, and the settlement of third-country trade transactions that involve Iran.

**Allowable Transactions**

Today's action will not affect funds transfers by U.S. depository institutions,through intermediary third-country banks, to or from Iran or for the direct or indirect benefit of the Government of Iran or a person in Iran arising from several types of underlying transactions including:

- A non-commercial remittance to or from Iran (e.g., a family remittance not related to a family-owned enterprise);
- The exportation to Iran or importation from Iran of information and informational materials;
- A travel-related remittance;
- Payment for the shipment of a donation of articles to relieve human suffering; or
- An underlying transaction authorized by OFAC through a specific or general license. Allowable funds transfers would include, for example, payments arising from over-flights of Iranian airspace, legal services, intellectual property protection, and authorized sales of agricultural products, medicine, and medical devices to Iran pursuant to the Trade Sanctions Reform and Export Enhancement Act.

## Treasury Calls for Large Position Report

11/7/2008

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HP-1259

The Treasury is calling for Large Position Reports from those entities whose reportable positions in either the 2% Treasury Notes of September 2010 or the 3-1/8% Treasury Notes of September 2013 equaled or exceeded $2 billion as of close of business **Thursday, November 6, 2008**. Entities with reportable positions in either of these notes equal to or exceeding the $2 billion threshold must submit a separate report for that security to the Federal Reserve Bank of New York. Entities with positions in these notes below $2 billion are not required to file Large Position Reports. Reports must be received by the Government Securities Dealer Statistical Unit of the Federal Reserve Bank of New York before noon Eastern Time (ET) on **Friday, November 14, 2008,** and must include the required positions and administrative information. Large Position Reports may be faxed to (212) 720-5030 or delivered to the Bank at 33 Liberty Street, 4th floor.

This call for large position information is made under Treasury's large position reporting rules (17 CFR Part 420). The notice calling for Large Position Reports is also being published in the *Federal Register.* This press release and a copy of a sample Large Position Report, which appears in Appendix B of the rules at 17 CFR Part 420, are available at the Bureau of the Public Debt's website at: www.treasurydirect.gov/instit/statreg/gsareg/gsareg.htm

Questions about Treasury's large position reporting rules should be directed to Treasury's Government Securities Regulations Staff at Public Debt on (202) 504-3632. Questions regarding the method of submission of Large Position Reports should be directed to the Government Securities Dealer Statistical Unit of the Federal Reserve Bank of New York at (212) 720-7993.

# Treasury Announces Solicitation for Financial Agents under the Emergency Economic Stabilization Act

11/7/2008

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HP-1260

**Washington, DC**--The Treasury Department posted today a solicitation for financial agents to provide services that are needed for the effective implementation of the Capital Purchase Program being administered under the Emergency Economic Stabilization Act. The services being sought are:

- Equity, Debt, Warrants Asset Management Services

All interested and eligible parties that meet the requirements and guidelines required of the service should submit requests by the 5 p.m. (EST) on Nov 13, 2008.

These services are being obtained through the Treasury's authority to retain financial agents to provide services on its behalf as provided for under the Emergency Economic Stabilization Act. These are not contracts governed by the provisions of the Federal Acquisition Regulation. More information on Treasury's procurement authorities under this Act can be found at: http://www.treasury.gov/initiatives/eesa/authorities.shtml.

**-30-**

**REPORTS**

- Notice for Equity Securities, Debt Obligations and Warrants

U.S. DEPARTMENT OF THE TREASURY

NOTICE TO FINANCIAL INSTITUTIONS

# INTERESTED IN PROVIDING ASSET MANAGEMENT SERVICES FOR A PORTFOLIO OF EQUITY SECURITIES, DEBT OBLIGATIONS, AND WARRANTS ISSUED BY FINANCIAL INSTITUTIONS

## I. INTRODUCTION

The U.S. Department of the Treasury ("Treasury") issues this notice to Financial Institutions interested in providing asset management services for a portfolio of securities, including senior preferred shares, senior debt, equity warrants, or other equity securities or debt obligations, issued to the Treasury by both public and private Financial Institutions participating in programs under the Emergency Economic Stabilization Act of 2008 (Act).

This notice describes services sought by the Treasury, sets forth the rules for submitting a response, and lists the factors that will be considered in selecting Financial Institutions to provide the services.

This notice is NOT for asset managers of troubled mortgage-related securities or mortgage loans, for which the Treasury has previously issued notices. The services described in this notice are for management of the Treasury's equity or debt positions in public and private Financial Institutions participating in programs under the Act.

Financial Institutions selected pursuant to this notice to provide asset management services to the Treasury will be designated as financial agents of the United States.

The Treasury may, in its sole discretion, decide not to select all asset managers pursuant to this notice at the same time. Rather, the Treasury may select and designate asset managers over time in a sequence that matches the Treasury's project plans and portfolio needs, as further described in this notice.

If your Financial Institution is interested in being designated as a financial agent, and meets the organizational eligibility and minimum requirements in Sections VI and VII, you may submit a response in accordance with this notice **no later than 5:00 p.m. ET on November 13, 2008.**

## II. OVERVIEW

In furtherance of its mission to ensure the safety and soundness of the U.S. financial system, and to implement the Act, the Treasury has established a voluntary Capital Purchase Program (CPP) to encourage public and private Financial Institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy.

Under the CPP, the Treasury will purchase capital of up to $250 billion, including senior preferred shares, senior debt, or other equity securities or debt obligations depending on the ownership structure of a Financial Institution. In addition, the Treasury may obtain warrants for common stock, or debt in lieu of warrants, of the public and private Financial Institutions equivalent in value to 15 percent of the amount of capital purchased by the Treasury.

The CPP is available to qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies engaged only in financial activities. The Treasury will determine the eligibility and allocations for interested public and private Financial Institutions after consultation with the appropriate Federal banking agency.

For more information on the initial phase of the CPP that involves publicly held Financial Institutions, please refer to the following web sites:

http://www.treas.gov/initiatives/eesa

http://www.treas.gov/press/releases/hp1222.htm

http://www.treas.gov/press/releases/reports/document5hp1207.pdf

Accordingly, the Treasury seeks multiple Financial Institutions to provide asset management services for the portfolio of senior preferred shares, senior debt, warrants, and other equity securities and debt obligations that the Treasury will receive from public and private Financial Institutions participating in the CPP. These Financial Institutions may be publicly traded on national exchanges, or over the counter, or they may be private Financial Institutions with varying ownership structures.

In addition to the CPP, the Treasury may establish other programs under the Act where the Treasury will obtain equity securities and debt obligations and warrants of public and private Financial Institutions. Asset managers selected pursuant to this notice will manage the assets obtained under these other programs as well as the CPP.

The Treasury's primary policy goal in managing the portfolio of Financial Institution securities and obligations is to protect the interests of taxpayers in light of the Treasury's stake in the public and private Financial Institutions.

## III. PORTFOLIO OF ASSETS

Pursuant to this notice, the Treasury intends to designate multiple asset managers to handle Financial Institution equity securities and debt obligations and warrants issued to the Treasury in connection with the Act.

The Treasury expects that a given asset manager will be assigned a certain number of public and/or private Financial Institutions and will provide all the services identified in this notice for the securities and obligations issued by those public and private Financial Institutions. As more fully described in Section IV, the services will include valuing the assets issued by the public and private Financial Institutions, analyzing the on-going financial condition, capital structure, and risks of the public and private Financial Institutions, advising on the optimal disposition of the Treasury's assets, executing transactions in accordance with the Treasury's instructions and Investment Policy and Guidelines, and providing the Treasury with detailed analysis and recommendations on corporate actions, proxy voting, disclosures, consents, waivers, and other business events that could have an impact on Treasury's ownership stake and compliance responsibilities.

The size of the overall portfolio will reach hundreds of billions of dollars, and will likely involve securities and obligations issued by thousands of public and private Financial Institutions. The portfolio mandate will last at least several years.

Consistent with the Treasury's primary policy goal of protecting the interests of taxpayers, as well as the goal of ensuring market stability, the portfolio is not expected to be actively traded. However, various events, such as changes in market valuations and market conditions, mergers and acquisitions, or impending exercise or conversion dates, may necessitate transfers or other transactions, subject to the Treasury's approval. Asset managers will be required to understand and evaluate these and any other events that may have an impact on the value of the Treasury's holdings, and to provide detailed recommendations to the Treasury. To the maximum extent practicable, the portfolio's risks will be managed to limit the potential for capital losses as public and private Financial Institution valuations change over time. The Treasury will determine the ultimate disposition of holdings or otherwise issue disposition guidance in its Investment Policy and Guidelines.

Asset managers will not acquire the assets in the portfolio. The Treasury will obtain the Financial Institution securities and obligations as a result of purchasing capital or executing other transactions with the public and private Financial Institutions under the Act. In addition, asset managers will not provide custody of any assets. The Treasury has already engaged an independent custodian to hold and safe keep all assets acquired under the Act, and asset managers will be required to work in good faith with the custodian in carrying out their duties.

The performance of individual asset managers will be measured by a variety of custom metrics and service levels linked to the Treasury's policy goals.

## IV. SERVICES AND REQUIREMENTS

Through this notice, the Treasury seeks responses from Financial Institutions qualified to provide asset management services for a multi-manager portfolio of securities obligations issued to the Treasury by public and private Financial Institutions participating in the CPP and in other programs under the Act. These obligations will include senior preferred shares, senior debt, equity warrants, or other equity securities or debt obligations. Financial Institutions designated as financial agents to provide asset management services will be required to:

Portfolio Management

- Act as the Treasury's asset manager, consistent with the Treasury's Investment Policy and Guidelines.

Valuation

- Determine the on-going market or economic value of (i) senior preferred shares, (ii) equity warrants, (iii) C Corporation shares, (iv) senior debt issued by mutual and S Corporation Financial Institutions, and/or (v) other equity securities or debt obligations issued to the Treasury by public and private Financial Institutions.

Monitoring

- Analyze the on-going financial condition and capital structure of public and private Financial Institutions, in light of relevant market conditions, and conduct equity and debt financial analysis, on behalf of the Treasury as an investor representing the taxpayer.
- Devise, document, and execute monitoring and surveillance strategies to meet the Treasury's Investment Policy and Guidelines.
- Monitor risks and volatility of the portfolio.
- Monitor public and private Financial Institution compliance with requirements imposed by the Act, such as executive compensation limits and dividend restrictions.

Disposition

- Advise on the strategy and optimal timing to execute warrants or monetize preferred shares and other equity securities or debt obligations, consistent with both the duty to the taxpayer and the goal of market stability, in accordance with the Treasury's Investment Policy and Guidelines.

Input to the Treasury

- Provide advice and input on the Treasury's response to corporate actions, proxy voting, disclosures, mergers and acquisitions, de-listings, corporate re-organizations and other business notifications received from the public and private Financial Institutions.

- Advise the Treasury on potential recapitalization strategies prior to re-purchase, exercise, or step-up and step-down dates of equity securities and debt obligations issued by public and private Financial Institutions, and represent the Treasury in discussions on such recapitalization strategies with such Financial Institutions.

Coordination

- Work in good faith and coordinate with the Treasury's designated custodian that will hold the Financial Institution securities and obligations.

- Work in good faith and coordinate with any Treasury contractors processing or adjudicating documents for the CPP and other programs under the Act.

Trade Execution

- Execute and confirm transfers, trades, and other transactions as instructed by the Treasury and in accordance with the Treasury's Investment Policy and Guidelines.

Operations

- Maintain records of (i) valuations, (ii) principal, interest, and dividend payments, (iii) cash flow projections, and (iv) any trades or transfers executed.

- Interface with the systems of an independent custodian, selected by the Treasury, that will have possession and safekeeping of all assets.

- Reconcile books and records with the custodian's and with the Treasury's accounting systems, as necessary.

- Maintain a compliance program designed to detect and prevent violations of Federal securities laws, and to identify, document, and enforce controls to mitigate conflicts of interest.

- Provide for all necessary operational and analytical hardware and software to support the services in this notice.

- Identify, document, and enforce internal controls on an on-going basis.

- Permit the Treasury's internal and external auditors, or other governmental oversight entities, to audit books and records related to the services in this notice.

Portfolio Analytics and Reporting

- Produce periodic and ad hoc status reports and analyses of Financial Institution performance and risks, using metrics and risk constraints established by the Treasury.
- Report portfolio performance and status against the Treasury's benchmarks and/or success metrics.
- Report on (i) securities and obligations held, (ii) positions in asset classes, (iii) securities and obligations characteristics, and (iv) transactions.
- Forecast expected principal, interest, and dividend payments given a range of market scenarios.
- Produce required valuation reports, at least monthly, incorporating pricing and relative value measures from external sources and models, as appropriate.
- Support the preparation of reports to oversight bodies.
- Retain all documentation and reports related to the services in this notice, subject to the Treasury's recordkeeping requirements.
- Respond promptly to the Treasury's verbal inquiries.

A Financial Institution should be prepared to provide services immediately if selected as an asset manager.

As a financial agent, the Financial Institution will have a fiduciary responsibility to perform all services in the best interests of the United States.

## V. MANAGER MODELS

As indicated above, the Treasury envisions selecting multiple managers, large and small, pursuant to this notice to manage the equity securities and debt obligations issued to Treasury by potentially thousands of public and private Financial Institutions. Given the scope of the portfolio mandate, these asset managers may be grouped into different tiers or segments, based on manager size, expertise, assignment to different parts of the capital structure, or other bases, or may be joined as co-managers or primary and sub-managers. Other asset managers may stand alone in handling their assigned portion of the portfolio. The Treasury will institute a framework of one or more manager models that will support an inclusive approach to involve both large and small asset managers. All asset managers selected will have a direct relationship with the Treasury as designated financial agents of the United States.

As part of this framework, the Treasury envisions that some managers will be arranged under a Manager-of-Managers model. If your Financial Institution is interested in and qualified to serve as a Manager-of-Managers, you should answer the additional items in Section IX of this notice.

In addition, to ensure a diversity of participation and ideas, and to identify the best asset management talent and capabilities throughout the industry, the Treasury is interested in receiving responses from qualified minority- and women-owned or controlled Financial Institutions to be asset managers. If your Financial Institution is minority- or women-owned or controlled, in whole or in part, you may answer the additional items in Section X of this notice.

## VI. ORGANIZATIONAL ELIGIBILITY

To be eligible to be selected as a financial agent pursuant to this notice, an organization:

- Must be a "Financial Institution" as defined in the Act, meaning any institution, including, but not limited to, any bank, savings association, credit union, security broker or dealer, or insurance company, established and regulated under the laws of the United States or any State, territory, or possession of the United States, the District of Columbia, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands, Guam, American Samoa, or the United States Virgin Islands, and having significant operations in the United States, but excluding any central bank of, or institution owned by, a foreign government. Registered investment advisors under the Investment Advisors Act of 1940, as amended, and private equity firms are considered "Financial Institutions" eligible to be designated as financial agents for purposes of this notice.

- Must not be on any Federal excluded parties, debarment, or suspension lists.

- Must not be delinquent on any debts owed to the Federal Government;

- Must not be subject to any pending or current enforcement actions that could impair its ability to provide any services under this notice.

- If currently doing business with the Treasury or another Federal agency, must not be in any kind of probationary status, and must be addressing and resolving any identified deficiencies in performance.

## VII. MINIMUM QUALIFICATIONS

The Treasury has established the following minimum qualifications for considering responses from interested and organizationally eligible Financial Institutions:

- The Financial Institution must be continuously engaged as a principal business in managing assets, comparable to the services described in Section IV, for the last 3 years.

- The Financial Institution must have at least $100 million in dollar-denominated assets under management.

- The Financial Institution's primary manager assigned to the Treasury's account must have at least 10 years of experience in managing assets comparable to those described in this notice.

- The Financial Institution must have financial statements prepared by an independent accounting firm, in accordance with generally accepted accounting principles, for the last 3 years.

- The Financial Institution must covenant to disclose all actual and potential conflicts of interest, and to avoid, mitigate, or neutralize to the extent feasible and to the Treasury's satisfaction any personal or organizational conflicts of interest that may be identified by the Treasury or the Financial Institution. To this end, the Financial Institution must be able and willing to enact and enforce information barriers sufficient to prevent the disclosure or misuse of material, non-public information received or obtained from, or derived on behalf of, the Treasury.

- The Financial Institution must be able and willing to partner with other Financial Institutions selected to be primary managers, co-managers, sub-managers, or Managers-of-Managers in the portfolio, as directed by the Treasury.

- The Financial Institution must be able and willing to work with Federal Reserve Banks, Federal agencies, governmental entities, and other organizations when the Treasury determines it to be in the best interest of the Government.

- The Financial Institution must meet all organizational eligibility standards in Section VI.

## VIII. INFORMATION REQUESTED

This Section identifies the primary information the Financial Institution must provide in its response to this notice.

1. Ownership. Please provide a succinct overview of your firm's ownership structure, and identify any major changes in the ownership structure that have occurred in the last 3 years.

2. Summary of Capabilities. Please provide an overview of your firm's specific organizational, technical, and personnel capabilities to perform the services identified in Section IV of this notice.

3. Expertise. Describe any specific expertise your firm has in managing and/or analyzing (i) preferred shares, (ii) senior debt, (iii) equity warrants, (iv) C and/or S Corporation shares or debt, (v) other Financial Institution equity securities or debt obligations, (vi) the financial institutions and financial services sectors, and (vii) private (non-publicly traded) companies.

4. Assets under Management. Provide information on your number of clients and a breakdown of your firm's assets under management by asset and/or product type as of September 30 for

at least the past 3 years, with any relevant details particular to the services and asset types identified in this notice.

5. Performance. Provide a table showing annualized gross-of-fee returns for Government Investment Performance Standards (GIPS) compliant composites for 1-year, 3-years, and, if available, 5-years ending September 30, 2008, against a broad U.S. market benchmark(s). If you are unable to provide a composite that complies with GIPS, please note this and provide relevant disclosures on the composite (number of accounts, dispersion, total assets, etc.).

6. Personnel. Describe the composition and expertise of your firm's personnel, and provide brief biographies of the senior team members who will be assigned to the Treasury's account.

7. Back Office and Reporting. Discuss your firm's back office and reporting capabilities, such as accounting, reconciliation, valuation, internal controls, and third party service providers, and such as producing a variety of standard and customized reports (e.g., performance reports, investor letters, risk reports, attribution reports, compliance reports, etc.).

8. Infrastructure Changes. Discuss what, if anything, your firm would need to change within its infrastructure (e.g., systems, licenses, personnel, etc.) to support the scope of services identified in this notice.

9. Conflicts of Interest. Identify any actual or potential conflicts of interest you would have in managing a portfolio as described in this notice. Include the interests of your corporate parents, subsidiaries, and affiliates in your answer. A conflict of interest is a relationship or activity that would cause a reasonable person to question your objectivity or ability to fulfill your fiduciary duties to the Treasury. Among other situations, conflicts of interest may exist if you, your corporate parent, or any of your subsidiaries or affiliates, is a Financial Institution that may be participating in the Troubled Asset Relief Program under the Act, or if you (1) have a personal, business, financial, or customer interest or relationship with a Financial Institution that may elect to participate in the Capital Purchase Program, or (2) manage proprietary or fiduciary accounts that hold securities issued by such Financial Institutions.

10. Mitigation Plan. Describe the specific steps you will take to avoid, mitigate, or neutralize any such conflicts.

11. Compliance. Describe your firm's compliance and ethics program, including any policies, procedures, training requirements, and audit practices designed to detect and prevent violations of Federal securities laws and conflicts of interest. If your organization has a compliance or risk officer, describe that person's position in the company's management structure and state whether that person operates independently from portfolio managers and other investment-policy decision makers.

12. Regulatory and Legal Actions. Identify any Federal or State citations or enforcement actions your organization or any affiliate has received or been warned of, and any litigation or legal

proceeding involving your asset management or investment consulting services involving fraud, negligence, criminal activity, or breach of fiduciary duty.

13. Ideas and Insights. Given the unique nature of the portfolio, the Treasury's primary policy goal, and the services described in this notice, provide two specific ideas, recommendations, or insights on the strategy for managing the overall portfolio or the investment policy to govern the assets you would manage for the Treasury.

14. Reporting Recommendation. Provide at least one recommendation or insight for the type and format of the most useful report that the Treasury should receive on the status of holdings, the condition and attributes of Financial Institutions that have issued obligations to the Treasury, and/or the performance or surveillance metrics for the portfolio.

15. Fees. Describe your proposed fees, including the reasons and logic behind the proposed fees, and declare the all-in costs associated with your services.

## IX. ADDITIONAL ITEMS FOR MANAGER-OF-MANAGERS

If your Financial Institution is interested and qualified to act as a Manager-of-Managers for the portfolio described in this notice, please provide additional information in response to the following items.

1. Manager-of-Managers Experience. Describe your specific experience in serving as a Manager-of-Managers or overseeing a stable of managers, and provide information on the process you use for portfolio construction, operational due diligence, and risk management of assets under a Manager-of-Managers model.

2. Manager-of-Manager Ideas. Provide one specific idea, recommendation, or insight for each of the following: (i) implementing a Manager-of-Managers model for the portfolio described in this notice, (ii) the type and format of the most useful report that the Treasury should receive on the performance of the Manager-of-Managers model and the individual managers under it, and (iii) the strategy for coordinating the individual managers.

## X. ADDITIONAL ITEMS FOR MINORITY- AND WOMEN-OWNED OR CONTROLLED BUSINESSES

In identifying qualified minority- and women-owned or controlled Financial Institutions, the Treasury is not establishing a specific ownership percentage, nor a particular certification requirement, for qualification or disqualification. Financial Institutions owned or controlled, in whole or in part, by minorities or women, may answer the following additional items directly without regard to other external standards for defining minority or women-owned status.

1. Minority/Women Ownership. Identify the percent of the business that is either women-owned or minority-owned. As part of your answer, identify the percent of the voting interests that is actually and fully owned by women or minorities, and identify the percent of net profit and loss that actually and fully accrues to women or minorities.

2. Minority/Women Executive Management. If the day-to-day management or operation of your Financial Institution is actually and directly carried out by minorities or women, please identify all such executive and operational officers, their titles, and who they report to in the organization.

3. Certification. If your Financial Institution is currently certified as a minority- or women-owned business, identify the certifying entity and the certification type and issuance and expiration date.

Providing the information in this Section is voluntary. The information requested in this Section will not be used in the response evaluation. Congressional and other oversight bodies may request to review the information provided under this Section

## XI. SELECTION PROCESS

The Treasury will evaluate the responses to this notice from all interested and qualified Financial Institutions, and will invite certain candidates to continue to the second phase of the financial agent selection process. The second phase, and subsequent phases, may be conducted under confidentiality agreements to facilitate information exchange, consistent with the public disclosure and transparency provisions of the Act. In the second phase, the prospective financial agents will provide additional information about their expertise, potential conflicts of interest, and corporate and ownership structures, as well as information on audited financial statements and filings, insurance and bonding, codes of conduct and ethics, asset management models and strategies, and references. This phase may include telephone conversations to allow questioning by and of the Treasury.

The Treasury will evaluate the responses from the second phase candidates, and will determine whether a candidate will continue to be considered. In this last stage, a Financial Institution may be required to conduct face-to-face discussions on portfolio scenarios, public policy goals, and statutory requirements, and to respond to interview questions to assess the capabilities of prospective individuals to be assigned to manage assets. Following any face-to-face meetings, the Treasury will make final selections of the Financial Institutions to be designated as asset managers.

Financial Institutions selected to be asset managers must sign a Financial Agency Agreement with the Treasury, a copy of which will be provided for review during the second stage of the selection process. The Financial Institution's willingness to enter into the standard Financial Agency Agreement, with the established terms and conditions currently applied to financial agents of the United States, will be among the factors used in evaluating the Financial Institution.

The Treasury may, in its sole discretion, decide not to select all asset managers pursuant to this notice at the same time, but rather may select managers over time in a sequence that matches the Treasury's project plans and portfolio needs as the CPP and other programs under the Act expand in scope.

The Treasury will notify the Financial Institution if its response to this notice is selected, rejected, or requires further information. However, the Treasury shall have no requirement to discuss the reasons, in either general or specific terms, or at any stage in the selection process, that the Financial Institution's response was not accepted or that the selection process may have been terminated.

The financial agent selection process may involve extremely short deadlines for submitting additional information, participating in conference calls, and for traveling to Washington, D.C. for meetings or interviews. Financial Institutions must be prepared to respond immediately during the selection process.

## XII. DEADLINE AND SUBMISSION OF RESPONSE

**To be considered to provide the services in this notice, the Financial Institution must submit its response by 5:00 p.m. ET on November 13, 2008.**

**The response must be submitted in PDF format via email to: assetmanager@do.treas.gov**

Additional information about the Act and the programs established under it, which may help in writing a response, may be found at: http://www.treas.gov/initiatives/eesa

This notice includes the entirety of instructions and guidance for interested Financial Institutions to submit a response. Financial Institutions should not attempt to obtain additional information from officers, employees, or agents of the Treasury regarding this notice. No information gained from any such communication may be considered in any way binding or limiting on the Treasury.

The Treasury, in its sole discretion, may change the deadline for submission of responses.

The Treasury has no obligation to consider a response received after the deadline provided above. The only acceptable evidence of the time of receipt is the Treasury's time/date stamp on the response or other evidence of receipt maintained by the Treasury.

The Financial Institution, by submitting a response to this notice, warrants and represents that it understands and agrees to all terms of this notice and the selection process, including the following:

- The Treasury, in its sole discretion, will select Financial Institutions to perform the services in this notice, based on its determination of what is in the best interests of the United States.

- No communication, question, response, or clarification, whether oral or written, about the requirements of this notice shall in any way serve to limit the Treasury's complete and sole discretion in selecting a Financial Institution and in making decisions in connection with this notice.

- The Treasury may select, reject, or request additional clarifying information about a Financial Institution's response without further discussion with the Financial Institution.

Because the Treasury may select or reject the response without engaging in discussion, the Financial Institution must present its most favorable technical and pricing response.

## XIII. RESPONSE FORMAT

The response must include a one-page cover letter, executed by a person legally authorized to represent the Financial Institution, that includes the following.

- The name, title, address, and office and cell phone numbers of the individual to receive communications from the Treasury.

- A certification statement that the Financial Institution (i) meets the organizational eligibility requirements of Section VI, (ii) meets the minimum qualifications in Section VII, (iii) understands and agrees to the terms and selection process set forth in this notice, (iv) understands and agrees to the confidentiality provisions in Section XVII, (v) understands and agrees that as a financial agent it will have a fiduciary duty to perform all services in the best interests of the United States, and (vi) is capable of providing the services identified in this notice.

The cover letter may be addressed to:

Gary Grippo
Deputy Assistant Secretary
Fiscal Operations and Policy
U.S. Department of the Treasury
1500 Pennsylvania Ave, NW
Washington, DC 20220

In addition to the cover letter, the response must include a document not to exceed 20 one-sided pages, in 12-point font with 1-inch margins, addressing all of the items in Section VIII above.

In addition to the cover letter and the document not to exceed 20 pages, the response should include, if applicable, a document not to exceed three one-sided pages, in 12-point font with 1-inch margins, addressing the items in Section IX for Manager-of-Managers and/or in Section X for minority- and women-owned or controlled businesses.

The response must not include any other documents or attachments. The response must not include any generic marketing or sales information, or rely on cross-references to other documents.

**The response should be submitted as a single, consolidated PDF formatted file, including the cover letter, the document not to exceed 20 pages, and, if applicable, the document not to exceed three pages. Please include the name of your Financial Institution in either the**

**header or footer of each page of your response, and please include only the name of your Financial Institution in the subject line of your email submission.**

## XIV. EVALUATION OF RESPONSE

The Treasury's overarching objective in evaluating Financial Institution responses and selecting providers is to ensure that the portfolio is managed in the most ethical, transparent, accountable, and cost effective manner possible.

The Treasury will use the following non-exclusive factors in evaluating a Financial Institution's response:

- The value and rigor of the Financial Institution's ideas, recommendations, and insights.
- The qualifications of staff to be assigned to the Treasury.
- The Financial Institution's experience in managing and analyzing the types of assets and performing the types of services identified in this notice.
- The Financial Institution's existing infrastructural capabilities, or clear and credible evidence of the ability to implement necessary infrastructural capabilities, to support the services identified in this notice.
- The quality and cogency of the written response in answering the questions directly and supplying the most relevant information.
- The nature and extent of the Financial Institution's conflicts of interest and its ability to neutralize or mitigate such conflicts.
- The Financial Institution's overall financial and management stability.
- The Financial Institution's proposed fee schedule and all-in costs.
- The Financial Institution's willingness to enter into the standard Financial Agency Agreement, with the established terms and conditions currently applied to financial agents of the United States.

The Treasury will notify the Financial Institution if its response is selected, rejected, or requires further information. However, the Treasury shall have no requirement to discuss the reasons, in either general or specific terms, that the Financial Institution's response was not accepted or that the selection process may have been terminated.

## XV. CONFLICTS OF INTEREST MITIGATION

Financial Institutions selected under this notice will be required to address and manage any actual or potential conflicts of interest to the satisfaction of the Treasury. Prior to entering into a

Financial Agency Agreement with the Treasury, the prospective Financial Institution will be required to provide the Treasury with sufficient information to evaluate any organizational or personal conflicts of interest. In addition, the Treasury and the Financial Institution must agree on a written mitigation plan documenting the actions or steps the Financial Institution will take to neutralize or mitigate conflicts identified by the Financial Institution or the Treasury, such as enacting and enforcing information barriers, being subject to certain transaction restrictions while in receipt of material, non-public information, or divesting assets that give rise to a conflict of interest. In addition, a Financial Institution that is selected under the notice will be subject to periodic certification requirements regarding its conflicts of interest as well as scheduled or ad hoc audits by the Treasury or designated representatives of the Treasury.

## XVI. AUTHORITY

The Secretary of the Treasury has statutory authority to designate Financial Institutions as financial agents of the United States to perform reasonable duties as determined by the Secretary, pursuant to the Act. A Financial Institution, if designated to provide services pursuant to this notice, shall be financial agent of the United States, and not a contractor. Neither this notice, nor the services sought by the Treasury, is a procurement subject to the Federal Acquisition Regulation.

## XVII. CONFIDENTIALITY

The Treasury considers any information provided to a Financial Institution in evaluating its response to this notice to be strictly confidential and must not be disclosed to any third party outside the Financial Institution's corporate organization, nor duplicated, used, or disclosed in whole or in part for any purpose other than to prepare a response. Under no circumstances shall any information received in connection with this notice be disclosed to any third party outside the Financial Institution's corporate organization without the express prior written consent of the Treasury.

In addition, if selected to provide services pursuant to this notice, a Financial Institution will be required to strictly safeguard and protect any confidential information received in its role as asset manager, and will be strictly limited to using such confidential information solely for the purposes of fulfilling its duties to the Treasury.

## XVIII. RESERVATION OF RIGHTS

The release of this notice and the Treasury's receipt of any information or responses shall not, in any manner, obligate the Treasury to perform any act or otherwise incur any liabilities.

The Treasury assumes no obligation to reimburse or otherwise compensate a Financial Institution for expenses or losses incurred in connection with this notice.

The Treasury shall have the unlimited right to use, for any governmental purpose, any information submitted in connection with this notice.

The Treasury reserves the right to: (1) modify the requirements in this notice or withdraw this notice at any time; (2) decide not to select any Financial Institution; (3) reject a response without inviting the Financial Institution to submit a new response; (4) negotiate with and select any Financial Institution considered qualified; (5) request, orally or in writing, clarification of or additional information on a response; (6) waive minor informalities or irregularities, or a requirement of this notice; (7) accept any response in part or in total; and (8) reject a response that does not conform to the specified format or other requirements of this notice.

Any selection and designation of a financial agent pursuant to this notice shall be contingent upon and subject to availability of funding.

# Treasury to Invest in AIG Restructuring Under the Emergency Economic Stabilization Act

11/10/2008

*To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.*

hp-1261

**Washington, DC** -- The Treasury Department today announced that it will purchase $40 billion in senior preferred stock from the American International Group (AIG) as part of a comprehensive plan to restructure federal assistance to the systemically important company. Together with steps taken by the Federal Reserve, this restructuring will improve the ability of the firm to execute its asset disposition plan in an orderly manner. AIG will use the equity to pay down $40 billion of the Federal Reserve's secured lending facility.

Under the agreement AIG must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act. AIG must comply with the most stringent limitations on executive compensation for its top five senior executive officers as required under the Emergency Economic Stabilization Act. Treasury is also requiring golden parachute limitations and a freeze on the size of the annual bonus pool for the top 70 company executives. Additionally, AIG must continue to maintain and enforce newly adopted restrictions put in place by the new management on corporate expenses and lobbying as well as corporate governance requirements, including formation of a risk management committee under the board of directors.

Treasury exercised its authority to purchase troubled assets under the Emergency Economic Stabilization Act.

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**REPORTS**

- AIG Term Sheet

**TARP AIG SSFI Investment**

**Senior Preferred Stock and Warrant**

**<u>Summary of Senior Preferred Terms</u>**

| | |
|---|---|
| **Issuer:** | American International Group, Inc. ("AIG"). |
| **Initial Holder:** | United States Department of the Treasury (the "UST"). |
| **Size:** | $40 Billion aggregate liquidation preference. |
| **Security:** | Senior Preferred, liquidation preference $10,000 per share; provided that UST may, upon transfer of the Senior Preferred, require AIG to appoint a depositary to hold the Senior Preferred and issue depositary receipts. |
| **Ranking:** | Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to the Senior Preferred. At the meeting of stockholders called to effect the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock, AIG shall propose an amendment to its Restated Certificate of Incorporation to allow the Senior Preferred to rank senior to the convertible preferred stock. |
| **Term:** | Perpetual life. |
| **Dividend:** | The Senior Preferred will accrue cumulative dividends at a rate of 10% per annum. Dividends will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Dividends will be payable when, as and if declared by the Board of Directors of AIG. Accrued but unpaid dividends shall compound quarterly. |
| **Redemption:** | At any time that (i) the AIG Credit Facility Trust (or any successor entity established for the benefit of the United States Treasury) "beneficially owns" less than 30% of the aggregate voting power of AIG's voting securities and (ii) no holder of the Senior Preferred controls AIG, then AIG may redeem the Senior Preferred in whole or in part at a redemption price equal to 100% of its liquidation preference, plus an amount equal to accrued and unpaid dividends (including, if applicable, dividends on such amount). "Control" for this purpose means the power to direct the management and policies of AIG, directly or indirectly, whether through the ownership of voting securities, by contract, by the power to control AIG's Board of Directors or otherwise. "Beneficially owns" is as defined in Rule 13d-3 under the Securities Exchange Act of 1934. For the avoidance of doubt, while there is AIG's Board of Directors control (or the potential to gain AIG's Board of Directors control) by the holder of the Senior Preferred, then AIG is not permitted to redeem the Senior Preferred. |
| **Restrictions on Dividends:** | Subject to certain exceptions, for as long as any Senior Preferred |

is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred ("Parity Stock"), or common shares (other than (i) in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred and (ii) in the case of junior preferred shares, dividends payable solely in common shares), nor may AIG repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred or common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred are fully paid or declared and a sum sufficient for the payment thereof set apart.

**Common dividends:** The UST's consent shall be required for any increase in common dividends per share until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties.

**Repurchases:** The UST's consent shall be required for repurchases of any common shares, other capital stock, trust preferred securities or other equity securities (other than (i) repurchases of the Senior Preferred, (ii) repurchases of junior preferred shares or common shares ("Junior Stock") in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice (including purchases to offset share dilution pursuant to a publicly announced repurchase plan), (iii) any redemption or repurchase of rights pursuant to any stockholders' rights plan and (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the signing date of UST's agreement to purchase the Senior Preferred or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock), until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties. Notwithstanding the foregoing, following the redemption in whole of the Senior Preferred held by UST or the transfer by UST of all of the Senior Preferred to one or more third parties not affiliated with UST, AIG may repurchase, in whole or in part, at any time the Warrant then held by UST at the fair market value of the Warrant so long as no holder of the Warrant controls AIG as provided in clause (ii) of "Redemption" above.

**Voting rights:** The Senior Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares other than the convertible preferred stock ranking senior or pari passu to the Senior Preferred, (ii) any amendment that adversely affects the rights of Senior Preferred, or (iii) any merger, exchange or similar transaction unless the Senior Preferred remains outstanding or is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent and the Senior Preferred or such preference shares have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less favorable to the holders thereof than those of the Senior Preferred immediately prior to such transaction, taken as a whole.

If dividends on the Senior Preferred are not paid in full for four dividend periods, whether or not consecutive, the Senior Preferred will have the right to elect the greater of 2 directors and a number of directors (rounded upward) equal to 20% of the total number of directors after giving effect to such election. The right to elect directors will end when full dividends have been paid for all past dividend periods.

**Transferability:** The Senior Preferred will not be subject to any contractual restrictions on transfer other than such as are necessary to insure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Senior Preferred as promptly as practicable, but in any event within 15 days, after notification by the UST and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Senior Preferred, AIG will also grant to the UST piggyback registration rights for the Senior Preferred and will take such other steps as may be reasonably requested to facilitate the transfer of the Senior Preferred including, if requested by the UST, using reasonable best efforts to list the Senior Preferred on a national securities exchange. If requested by the UST, AIG will appoint a depositary to hold the Senior Preferred and issue depositary receipts.

**Claim in Bankruptcy:** Equity claim with liquidation preference to common equity claim.

**Acceleration Rights:** None

**Use of Proceeds:** To repay the senior secured revolving credit facility governed by the Credit Agreement dated as of September 22, 2008 (the "Credit Agreement") between AIG and the Federal Reserve Bank of New York ("FRBNY").

**Tax Treatment:** Dividends on the Senior Preferred are non tax-deductible to AIG.

**Restrictions on Expenses:** AIG shall continue to maintain and implement its comprehensive written policy on corporate expenses and distribute such policy to all AIG employees. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries; (iii) govern (a) the hosting, sponsorship or other payment for conferences and events, (b) the use of corporate aircraft, (c) travel accommodations and expenditures, (d) consulting arrangements with outside service providers, (e) any new lease or acquisition of real estate, (f) expenses relating to office or facility renovations or relocations and (g) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

**Restrictions on Lobbying:**

AIG shall continue to maintain and implement its comprehensive written policy on lobbying, governmental ethics and political activity and distribute such policy to all AIG employees and lobbying firms involved in any such activity. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries and affiliated foundations; (iii) govern (a) the provision of items of value to any government officials, (b) lobbying and (c) political activities and contributions; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

**Reporting:**

Except as otherwise agreed, AIG shall provide the UST (i) the information required to be provided by AIG to the FRBNY pursuant to Section 5.04 of the Credit Agreement, (ii) the notices required by Section 5.05 of the Credit Agreement, in each case within the time periods for delivery thereof specified in the Credit Agreement and (iii) such executive compensation information as is required for purposes of the Emergency Economic Stabilization Act of 2008 ("EESA") and the regulations and guidelines thereunder; provided that, after the termination of the Credit Agreement, such informational and notice requirements as are provided in Section 5.04 and Section 5.05 of the Credit Agreement shall remain in full force and effect until such time as the UST no longer owns any shares of Senior Preferred. In addition, AIG shall promptly provide the UST such other information and notices as the UST may reasonably request from time to time.

**Executive Compensation:**

As a condition to the closing of this investment, AIG shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST's guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI. Accordingly, as a condition to the closing of this investment, AIG and its senior executive officers covered by the EESA ("SEOs") shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with, and following the closing and for so long as the UST holds any equity or debt securities of AIG issued under this agreement (the "Relevant Period"), AIG shall agree to be bound by the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI. As an additional condition to the closing, AIG and its SEOs shall grant to the UST and the SEOs shall grant to AIG waivers releasing the UST, and, in the case of the SEOs release, AIG, from any claims that AIG and such SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI.

In addition to Notice 2008-PSSFI, the following will apply:

1. AIG shall undertake during the Relevant Period to limit any golden parachute payments to its most senior employee group, who are currently referred to as Senior Partners ("Senior Partners"), (other than its SEOs) to the amounts permitted by the regulations relating to participants in the EESA Capital Purchase Program and the guidelines and Interim Final Rule (31 CFR Part 30) relating thereto as if they were SEOs (except that equity denominated awards settled solely in equity shall not be included in such limit), and AIG shall grant the UST a waiver releasing the UST, and shall use its best efforts to obtain waivers from the Senior Partners releasing the UST and AIG, from claims that AIG may have against the UST and that such Senior Partners may have against the UST or AIG as a result of such limits, and shall have obtained such waivers from AIG and its U.S.-based Senior Partners prior to and as an additional condition to the closing.

2. The annual bonus pools payable to Senior Partners in respect of each of 2008 and 2009 shall not exceed the average of the annual bonus pools paid to Senior Partners for 2006 and 2007 (in each case exclusive of AIG's historic quarterly bonus program, the amount of which will not increase for any participant, and subject to appropriate adjustment for new hires and departures).

**Risk Management Committee:** AIG shall establish, within 30 days of the issuance of the Senior Preferred, and maintain, at least until the UST ceases to own any shares of the Senior Preferred, the Warrant or any other equity or debt securities of AIG, a risk management committee of the AIG's Board of Directors that will oversee the major risks involved in AIG's business operations and review AIG's actions to mitigate and manage those risks.

**Miscellaneous:** The dividend rate as provided in "Dividend" above is subject to adjustment in the sole discretion of the Secretary of the Treasury in light of, inter alia, then-prevailing economic conditions and the financial condition of AIG, with the objective of protecting the U.S. taxpayer.

## Summary of Warrant Terms

**Warrant:** The UST will receive a warrant ("Warrant") to purchase a number of shares of common stock of AIG ("Common Stock") equal to 2% of the issued and outstanding shares of Common Stock on the date of investment. The initial exercise price for the Warrant shall be $2.50 per share of Common Stock (representing the par value of the Common Stock on the date of the investment), subject to customary anti-dilution adjustments; provided that the initial exercise price per share of Common Stock shall be adjusted to the par value per share of the Common Stock following the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock. The Warrant shall be net share settled or, if consented to by AIG and the UST, on a full physical basis.

**Term:** 10 years

**Exercisability:** Immediately exercisable, in whole or in part.

**Transferability:** The Warrant will not be subject to any contractual restrictions on transfer other than such as are necessary to ensure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Warrant and the Common Stock underlying the Warrant as promptly as practicable, but in any event within 15 days after notification by the UST, and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Warrant or the Common Stock underlying the Warrant, AIG will also grant to the UST piggyback registration rights for the Warrant and the Common Stock underlying the Warrant. AIG will apply for the listing on the New York Stock Exchange of the Common Stock underlying the Warrant and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrant and the underlying Common Stock.

**Voting:** The UST will agree not to exercise voting power with respect to any shares of Common Stock issued to it upon exercise of the Warrant.

**Substitution:** In the event AIG is no longer listed or traded on a national securities exchange the Warrant will be exchangeable (in whole or in part), at the option of the UST, for an economic interest (to be determined by the UST after consultation with AIG) of AIG classified as permanent equity under GAAP having a fair market value (as determined by the UST) equal to the portion of the Warrant so exchanged.

## Interim Assistant Secretary for Financial Stability Neel Kashkari Remarks at the SIFMA Summit on the TARP

11/10/2008

HP-1262

**New York -** Good morning and thank you for that kind welcome. I am here today to provide a comprehensive update on the Treasury Department's progress in implementing the Troubled Asset Relief Program (TARP), which is a major component of the overall coordinated effort by the Federal Government to restore confidence in our financial system and ensure that credit continues to be available to consumers and businesses. In the past year, a number of complementary actions have been taken by the Administration, the Federal Reserve, and the financial regulatory agencies to maintain confidence in the viability and soundness of the U.S. financial sector.

This morning, I'd like to put a special emphasis on the Capital Purchase Program that Secretary Paulson announced 27 days ago on October 14. We at Treasury are in deep execution mode, launching and implementing a program that would typically take months or years to establish. Since the President signed the legislation creating the TARP, we have made tremendous progress on several fronts, but recognize that much more work remains to be done.

Today, I will brief you about five areas. First, I will discuss Treasury's progress implementing the Capital Purchase Program. Second, I will review some of the important developments in procuring essential services for the program. Third, I will describe how we have built up the leadership of the Office of Financial Stability and note a few of our recent critical additions to our team. Fourth, I will give you a detailed update on our important continuing work to meet the highest compliance requirements. And finally, I will briefly discuss our next steps.

However, before I start, I want to take a moment to discuss the actions we took today with American International Group (AIG) and how that relates to the TARP. The TARP's foremost purpose is to stabilize the financial system. We used TARP funds to purchase preferred stock in AIG, as part of a broader restructuring of their balance sheet, in coordination with the Federal Reserve. This action was necessary to maintain the stability of our financial system. In return, AIG must comply with stringent limitations on executive compensation for its top executives, golden parachutes, its bonus pool, corporate expenses, and lobbying. We recognize that the financial system remains fragile and we continue to stand ready to prevent systemic failures. We worked with the Congress to ensure the TARP included sufficient flexibility to do just this.

### Implementation of the Capital Purchase Program

On Tuesday, October 14, Treasury announced a voluntary Capital Purchase Program (CPP), which we subsequently followed on October 20 with streamlined application guidelines. In developing this program, we worked closely with the four federal banking regulatory agencies with the following two policy objectives in mind. One, the CPP is intended to strengthen our financial system by increasing the capital base of a broad array of institutions. And two, the capital program aims to increase the flow of financing to businesses and consumers to support our economy.

### Terms of the Capital Purchase Program

With these policy objectives in mind, let me describe the terms of the program. We designed the terms to be attractive to encourage broad participation, while also including important taxpayer protections.

Under the program, Treasury will purchase up to $250 billion of senior preferred shares on standardized terms, including a 5 percent dividend for five years, which then increases to 9 percent. The Capital Purchase Program is available to a broad array of financial institutions of all sizes- including qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies.

We have allocated sufficient capital, $250 billion, so that all qualifying banks, potentially thousands, can participate. Therefore, it is important to note that Treasury will not implement this program on a first-come-first-served basis; there is enough capital allocated for all qualifying institutions.

The terms for this program are the same for all institutions that apply before the program deadline of November 14. We are working hard to finalize and publish the required legal documents so private banks can participate as well on the same economic terms as public banks. The November 14 deadline will be extended for private banks so they have time to apply.

The minimum subscription amount available to a participating institution is 1 percent of risk-weighted assets. The maximum subscription amount in this program is the lesser of $25 billion or 3 percent of risk-weighted assets.

The funds we deploy in this program are an investment for taxpayers. The government will not only own shares which we expect to yield a reasonable return, but will also receive warrants for common shares in participating institutions. These warrants allow the taxpayer to benefit from any appreciation in the market value of the institution.

We have designed important features into the Capital Purchase Program to help ensure our policy objectives of strengthening the financial system and facilitating the availability of credit are met. First, we barred any increase in dividends for three years. Second, we restricted share repurchases. Increasing dividends or buying back shares would undermine our policy objective by taking capital out of the financial system. Some people have suggested that we should have barred dividends altogether. But this would have made private investments in our financial institutions less attractive. We want to encourage private capital to flow into the financial sector.

The program also has requirements to meet the guidelines set out by Congress in the law on executive compensation. Institutions that sell shares to the government under the program accept restrictions on executive compensation during the period that Treasury holds equity. Details of these executive compensation requirements are listed on the Treasury website.

**Linkages to Increased Bank Lending**

As Secretary Paulson explained, this program has the objectives of strengthening the financial system and increasing credit to our economy. A stronger capital base, especially for healthy banks, provides them with additional capacity to lend. They can provide loans to new or existing customers. Notably, healthy banks that take advantage of this program can now service clients that impaired banks, constrained by insufficient capital, cannot. We've already heard from regional banks who have applied to the program and plan to use the funds to take on new borrowers. To many banks, this is just common sense.

In addition, the financial incentives to make new loans are both strong and clear. A bank's return on capital will decrease if it simply hoards the additional equity. Its shareholders will demand that the bank put the capital to the best use possible or watch their returns suffer.

**Application Process**

Let me now outline the application process for the Capital Purchase Program.

On Monday, October 20, Treasury announced a streamlined, systematic process for all publicly owned banks wishing to access this program. We worked with the four banking regulatory agencies to finalize the application process.

There is a common application form that all qualified and interested financial institutions use to submit to their primary regulator – the Federal Reserve, the FDIC, the OCC or the OTS. This common application form is available on the websites of all the regulatory agencies.

As a first step to applying for the program, banks should review the information on the Treasury website and consult with their primary federal regulator. They can go to the regional office of their primary regulator anywhere in the country, be it California, Kansas or Texas. After this consultation process, the institution should submit an application to that same regulator.

**Evaluation Process**

Treasury worked closely with the banking regulators to establish a standardized evaluation process; this means that all regulators will use the same standards to review all applications to ensure consistency.

Once a regulator has reviewed an application, it will take one of the following three actions:

1. For applications it does not recommend, it may encourage the institution to withdraw the application.
2. For applications it strongly believes should be included in the program, it directly sends the application and its recommendation to the TARP Investment Committee at the Treasury Department.
3. For cases that are less clear, the regulator will forward the application to a Regulatory Council, made up of senior representatives of the four banking regulators for a joint review and recommendation. Treasury is an observer on the Council. The Regulatory Council will make a joint recommendation of either withdrawal or approval.

The Treasury TARP Investment Committee reviews all recommendations from the regulators. This committee includes our top officials on financial markets, economic policy, financial institutions, and financial stability, as well as the Chief Investment Officer for the TARP, who chairs the Committee.

This is a Treasury program and Treasury makes the final decision on any investments. However, the Investment Committee gives considerable weight to the recommendations of the banking regulators. The Investment Committee is an advisory committee which makes recommendations to the Assistant Secretary for Financial Stability who makes the final decision on preliminary approval. In some cases, the Committee will send the application back to the primary regulator for additional information, or even remand it to the Regulatory Council for further review. At the end of the evaluation process, Treasury notifies all approved institutions.

Institutions then have 30 days to complete the required documents before we fund the transaction. All completed transactions will be publicly announced within two business days of execution, as required by the law. We will not, however, announce any applications that are withdrawn or denied.

We recognize that, in some cases, participating banks will need shareholder approval before completing the preferred stock investment. Moreover, the operational and processing complexity of executing hundreds or even thousands of these transactions is extraordinary. As such, we have brought-in the requisite expertise and are setting up a formal transaction processing model to ensure high quality and rapid execution. We have asked our master custodian, the Bank of New York Mellon, to handle much of the document management. In addition, we have engaged two outside law firms to help manage and close individual transactions. Senior Treasury staff oversee all aspects of the program. Any questions about the application process should be directed to the regulators.

**Capital Deployed**

While Treasury kicked off the program by signing final agreements with nine large financial institutions, we are now working diligently with the federal banking agencies to process applications from hundreds of other institutions. We have granted preliminary approval to a number of them.

Each transaction includes execution of at least three documents: a stock purchase agreement; a certificate of designation; and a warrant purchase agreement.

People often ask when we will see banks making new loans. First, we must we must recognize that less than half the money is out the door. Given the complexity of executing these numerous transactions, it will take a few months to complete all of these investments. Second, although progress has been made in the last month, our capital markets remain fragile and confidence is still shaky. As confidence returns to our institutions and our markets, we believe banks will put this capital to use by extending loans to creditworthy businesses and consumers. The last thing we want, however, is to encourage banks to resume the poor lending practices that are the cause of the current economic problems.

**Procurement**

Now, let me turn to the procurement of services to support the TARP.

Our approach to procurement is based on the following strategy. First, in order to protect the taxpayers, we will seek the very best in private sector expertise to help execute this program. Second, we believe, to the extent possible, everyone should have a right to compete for these contracts, especially small businesses, veteran-owned businesses, and minority and women-owned businesses. Third, we are taking appropriate steps to mitigate potential conflicts of interest.

Since our last detailed update, we have hired several firms to assist execution of the programs:

1. Accounting Services: We solicited six firms off GSA Federal Supply Schedule and awarded a contract to Ernst & Young. We solicited six firms off GSA Federal Supply Schedule and awarded a contract to Ernst & Young.
2. Accounting Internal Controls Support: We again solicited six firms off GSA Federal Supply Schedule and awarded a contract to PricewaterhouseCoopers.
3. Legal Services for review of documents under the CPP: We solicited five firms off GSA Federal Supply Schedule and awarded Blanket Purchase Agreements to: Hughes, Hubbard & Reed and Sanders & Dempsey.
4. Human Resources Support: We solicited four firms off GSA Federal Supply Schedule and awarded a contract to Lindholm & Associates.

On Friday, November 7 we published a new notice for financial agents to serve as asset managers for the equity, warrants and senior debt issued to the Treasury by financial institutions participating in the CPP. This solicitation is open to all entities that meet minimum qualifications and responses are due within six days on Thursday, November 13 at 5pm. We set the minimum requirement at $100 million in assets under management to ensure that all qualifying small, veteran, minority and women owned businesses may respond. Finally, all of our completed contracts and financial agency agreements are available on the Treasury website.

**Recruitment**

Recruiting the right people is essential to the success of this program and we continue to move quickly. It will obviously take time to bring on board permanent members of the team that will manage this program over the long term. While the permanent team is being identified for tomorrow, we are tapping the very best, seasoned, financial veterans to help launch the program today and provide stability during the transition. We have been successful in recruiting outstanding interim leaders for key positions in the Office of Financial Stability. In each case, the interim official is charged with: One, setting up the office; two, hiring permanent staff; three, operationalizing our programs; and, four, identifying their permanent successor.

The team is growing daily and the team members are too numerous to name individually. However, I want to highlight a few of our key interim leaders we have added in the last few weeks:

1. James Lambright, Chairman and President of the Export-Import Bank, has joined as our interim Chief Investment Officer. At Ex-Im since 2001, Jim brings both public and private sector experience underwriting and executing multi-billion dollar deals, including invaluable expertise in real estate banking at Credit Suisse.
2. Don McLellan is serving as our Capital Purchase Program Manager. He previously worked at Motorola, where he served as the Senior Vice President for M&A and strategy. A transactional attorney by training, Don has 18 years of experience managing large, complex corporate transactions, including mergers and acquisitions, private equity investments, financings, corporate restructurings and IPOs.
3. Howard Schweitzer is serving as interim Chief Operating Officer. He brings in-depth knowledge of government operations and financial transactions to the TARP team. Since 2005, Howard has been senior vice president, general counsel and a member of the senior management committee of the Export-Import Bank.

These leaders round out what I call our "Joint Chiefs" – which include previously announced management personnel. These leaders are actively building out their operations and contributing to all phases of the TARP. The Office of Financial Stability now has about forty dedicated personnel and will need to expand further to ensure high quality execution.

**Compliance**

Let me now turn to compliance. We are committed to transparency and oversight in all aspects of the program and continue to take strong action to make sure we comply with the letter and the spirit of the requirements established by the Congress. We want to inform the public as much as possible about our operations, so we have posted an abundance of information on the Treasury website to allow everyone to have insight into our actions.

First, we moved quickly to establish the Financial Stability Oversight Board. The law required the first board meeting to take place within fourteen days and then meet monthly thereafter. Again, we moved rapidly and the new Oversight Board met within four days and has met four times in the five weeks since the President signed the law, including just yesterday to discuss the AIG investment.

Second, Treasury staff continues to meet regularly with both the Government Accountability Office, who has an on-site presence at Treasury, as well as Treasury's Inspector General. A search is underway to identify a permanent Special Inspector General for this program.

Third, on October 29, we released transaction reports for the first nine investment commitments we made under the Capital Purchase Program. The law requires such disclosure within two business days of entering into such a commitment. Last week, on November 4, we submitted the first Tranche Report to Congress, which is required by law within seven days of committing each $50 billion. The report we submitted covered the first $125 billion that we committed under the CPP. We will issue additional reports when further commitments are made and thresholds are crossed.

As you can see, Treasury is committed to an open and transparent program with appropriate oversight. We look forward to continuing to brief the Oversight Board, the Inspector General, the Comptroller General, and the Congress as we set up and execute this program. Transparency will not only give the American people comfort in our execution, it will give the markets confidence in what form our action will take.

**Next steps**

Since the announcement of our Capital Purchase Program, and the coordinated actions with the Federal Reserve and FDIC, we have seen numerous signs of improvement in our markets and in the confidence in our financial institutions. For example, the average credit default swap spread for the eight largest U.S. banks has declined almost 245 basis points since before Congress passed the law. One month LIBOR has declined 243 basis points and three month LIBOR has dropped 192 basis points.

Nonetheless, while there have been recent positive developments, our markets remain fragile.

We have accomplished a great deal in a short period of time. But our work is only beginning. As I previously described, the operational scale and complexity to execute hundreds or even thousands of investments in banks across the country is extraordinary. It will take months to fully execute and fund all of these transactions. We are working around the clock to make it happen quickly while ensuring high quality execution. We intend to keep the incoming Administration fully apprised of our initiatives so that there is smooth transition as the leadership of the Treasury changes hands.

Our goal is to use the TARP to attack the root cause of the financial market turmoil, so American families and businesses can get the credit they need. This is Secretary Paulson's highest priority.

We will continue to provide you with regular updates on our progress. Thank you.

## Treasury to Join FHFA, GSEs, HOPE NOW to Announce Streamlined Modification Program

11/11/2008

HP-1263

Treasury Assistant Secretary Neel Kashkari will join officials from the Federal Housing Finance Agency (FHFA), the Department of Housing and Urban Development and HOPE NOW today to announce a new streamlined modification program. A background briefing with FHFA, GSE and HOPE NOW representatives will follow the press conference.

The following event is open to the media:

**Who**

**Neel Kashkari, Interim Assistant Treasury Secretary for Financial Stability**

James B. Lockhart, FHFA Director & Oversight Board Chairman

Brian Montgomery, FHA Commissioner

Faith Schwartz, HOPE NOW

Michael Heid, Wells Fargo

**What**

Remarks on Streamlined Modification Program

Pen-and-Pad Background Briefing

**When**

**Tuesday, November 11, 2008 2 p.m. (EST)**

**Where**

OTS Amphitheatre

1700 G Street, NW

**Note**

**TV crews should bring their own lights and microphones. No stage lights or mult-box will be available. No cameras will be permitted to the background briefing.**

# Treasury Interim Assistant Secretary for Financial Stability Neel Kashkari Remarks on GSE, HOPE NOW Streamlined Loan Modification Program

11/11/2008

HP-1264

**Washington -** Stabilizing our financial system will require not only strengthening our financial institutions so they are able to lend to our communities, but also helping homeowners avoid preventable foreclosures. As Secretary Paulson has repeatedly said, there is no silver bullet to address the housing downturn. We are experiencing a necessary correction and the sooner we work through it, the sooner housing can again contribute to our economic growth. We must explore all tools to help homeowners and increase the availability of mortgage finance.

Since last year, Treasury has worked with leading housing counselors, mortgage servicers and investors through the HOPE NOW Alliance to reach and help homeowners who both want to keep their homes and have the basic financial wherewithal to do so. In that time, industry and government have developed several new tools to help homeowners. The industry is now helping over 200,000 homeowners a month avoid foreclosure with a loan workout.

Today's announcement by FHFA, the GSEs, and HOPE NOW is an important step forward to make sure the system has capacity to help all qualifying homeowners who are reaching out for help. We commend FDIC Chairman Sheila Bair for her leadership in developing a systematic loan modification protocol at IndyMac Bank. FHFA, the GSEs and HOPE NOW relied heavily on the IndyMac model in developing this new protocol. With such broad adoption, this new protocol will be a standard for the industry to quickly move homeowners into long-term sustainable mortgages.

The adoption of this streamlined modification framework is an additional tool that servicers will now have to help avoid preventable foreclosures. This framework will not only help those homeowners who receive a streamlined modification, it will also further address servicer capacity concerns by freeing up resources, helping ensure that borrowers do not fall through the cracks because servicers aren't able to get to them.

We commend Director Lockhart and FHFA along with Fannie Mae and Freddie Mac for taking the lead in developing and adopting this streamlined approach to loan modifications and helping establish these important new industry standards. We also commend Hope Now for their continued leadership in bringing the industry together for a common solution. It is important to note the powerful example large lenders are providing by applying this protocol to their own mortgage portfolios.

The Treasury Department is committed to continuing to take strong action to stabilize our financial system and we welcome this important announcement to help homeowners avoid preventable foreclosures.

# Remarks by Secretary Henry M. Paulson, Jr. on Financial Rescue Package and Economic Update

11/12/2008

HP-1265

**Washington -** Good morning. I will provide an update on the state of the financial system, our economy, and our strategy for continued implementation of the financial rescue package.

**Current State of Global Financial System**

The actions taken by Treasury, the Federal Reserve and the FDIC in October have clearly helped stabilize our financial system. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. U.S. and European financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

We also acted quickly and in coordination with colleagues around the world to stabilize the global financial system. Going into the Annual IMF/World Bank meetings in early October, I made clear that we would use the financial rescue package granted by Congress to purchase equity directly from financial institutions – the fastest and most productive means of using our new authorities to stabilize our financial system. We launched our capital purchase program the following week when we announced that nine of the largest U.S. financial institutions, holding approximately 55 percent of U.S. banking assets would sell $125 billion in preferred stock to the Treasury. At the same time, the FDIC announced it would temporarily guarantee all newly issued senior unsecured debt of participating organizations for up to three years. In addition, the FDIC provided an unlimited guarantee on non-interest bearing transaction accounts that expires at the end of next year.

As I assess where we are today, I believe we have taken the necessary steps to prevent a broad systemic event. Both at home and around the world we have already seen signs of improvement. Our system is stronger and more stable than just a few weeks ago. Although this is a major accomplishment, we have many challenges ahead of us. Our financial system remains fragile in the face of an economic downturn here and abroad, and financial institutions' balance sheets still hold significant illiquid assets. Market turmoil will not abate until the biggest part of the housing correction is behind us. Our primary focus must be recovery and repair.

**Housing and Mortgage Finance**

Overall, we are in a better position than we were, but we must address the continued challenges of a weak economy, especially the housing correction and lending contraction.

On housing, we have worked aggressively to avoid preventable foreclosures and keep mortgage financing available. In October 2007, we helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. HOPE NOW created a streamlined protocol to assist struggling borrowers who could afford their homes with a loan modification. The industry is now helping 200,000 homeowners a month avoid foreclosure. In addition, HUD has created new programs to complement existing FHA options, and to refinance a larger number of struggling borrowers into affordable FHA mortgages.

Most significantly, we acted earlier this year to prevent the failure of Fannie Mae and Freddie Mac, the housing GSEs that now touch over 70 percent of mortgage originations. I clearly stated at that time three critical objectives: providing stability to financial markets, supporting the availability of mortgage finance, and protecting taxpayers – both by minimizing the near term costs to the taxpayer and by setting policymakers on a course to resolve the systemic risk created by the inherent conflict in the GSE structure.

Fortunately we acted, citing concerns about both the quality and quantity of GSE capital. Unfortunately, our actions proved all too necessary. The GSEs were failing, and if they did fail, it would have materially exacerbated the recent market turmoil and more profoundly impacted household wealth: from family budgets, to home values, to savings for college and retirement.

Earlier this week, Fannie Mae reported a record loss, including write-downs of its deferred tax assets that make up a significant portion of its capital. We monitor closely the performance of both Fannie Mae and Freddie Mac, and both are performing within the range of our expectations. The magnitude of the losses at Fannie Mae were within the range of what we expected, and further confirms the need for our strong actions.

Eight weeks ago, Treasury took responsibility for supporting the agency debt securities and the agency MBS through a preferred stock purchase agreement that guarantees a positive net worth in each enterprise – effectively, a guarantee on GSE debt and agency MBS. We also established a credit facility to provide the GSEs the strongest possible liquidity backstop. As the enterprises go through this difficult housing correction we will, as needed and promised, purchase preferred shares under the terms of that agreement. The U.S. government honors its commitments, and investors can bank on it.

When we took action in September, I said that we would be entering a "time out" – a period where the new President and Congress must decide what role government in general, and the GSEs in particular, should play in the housing market. In my view, government support needs to be either explicit or non-existent, and structured to resolve the conflict between public and private purposes. And policymakers must address the issue of systemic risk. In the weeks ahead, I will share some thoughts outlining my views on long term reform.

In the meantime, the GSEs now operate on stable footing. They have strong government support backing both future capital and liquidity needs. We have stabilized the GSEs and limited systemic risk, and our authorities provide us with additional flexibility to use as necessary to accomplish our objectives.

**Implementing the Financial Rescue Package**

More recently, we have also taken extraordinary steps to support our financial markets and financial institutions. As credit markets froze in mid-September, the Administration asked Congress for broad tools and flexibility to rescue the financial system. We asked for $700 billion to purchase troubled assets from financial institutions. At the time, we believed that would be the most effective means of getting credit flowing again.

During the two weeks that Congress considered the legislation, market conditions worsened considerably. It was clear to me by the time the bill was signed on October 3rd that we needed to act quickly and forcefully, and that purchasing troubled assets – our initial focus – would take time to implement and would not be sufficient given the severity of the problem. In consultation with the Federal Reserve, I determined that the most timely, effective step to improve credit market conditions was to strengthen bank balance sheets quickly through direct purchases of equity in banks.

Of course, before that time, the only instances in which Treasury had taken equity positions was in rescuing a failing institution. Both the preferred stock purchase agreement for Fannie Mae and Freddie Mac, and the Federal Reserve's secured lending facility for AIG came with significant taxpayer protections and conditions. As we planned a capital purchase plan to support the overall financial system by strengthening balance sheets of a broad array of healthy banks, the terms had to be designed to encourage broad participation, balanced to ensure appropriate taxpayer protection and not impede the flow of private capital.

**Capital Purchase Plan**

We announced a plan on October 14th to purchase up to $250 billion in preferred stock in federally regulated banks and thrifts. By October 26th we had $115 billion out the door to eight large institutions. In Washington that is a land-speed record from announcing a program to getting funds out the door. We now have approved dozens of additional applications, and investments are being made in approved institutions. Although we are moving very quickly it will take time to complete legal contracts and execute investments in the significant number of institutions who meet the eligibility requirements and are approved, but we are on the path to getting this done.

Although this program's primary purpose is stabilizing our financial system, banks must also continue lending. During times like these with a slowing economy and some deterioration in credit conditions, even the healthiest banks tend to become more risk-averse and restrain lending, and regulators' actions have reinforced this lending restraint in the past. With a stronger capital base, our banks will be more confident and better positioned to play their necessary role to support economic activity. Today banking regulators issued a statement emphasizing that the extraordinary government actions taken by the Fed, Treasury and FDIC to stabilize and strengthen the banking system are not merely one-sided; all banks – not just those participating in the Capital Purchase Program – have benefited, so they all also have responsibilities in the areas of lending, dividend and compensation policies, and foreclosure mitigation. I commend this action and I am particularly focused on the importance of prudent bank lending to restore our economic growth.

Since announcing the Capital Purchase Program, we have been examining a wide range of ideas that can further strengthen the financial system and get lending going again to support the broader economy. First and foremost, because the system remains fragile, we must continue to stand ready to prevent systemic failures. That is the basis for Monday's action to purchase preferred shares in AIG. The stability of our system remains the highest priority.

We must also allow markets and institutions to absorb the extensive array of new policies put in place in a very short period of time. The injection of up to $250 billion of capital into individual banks, the FDIC's temporary guarantee of bank debt and the Federal Reserve's multiple liquidity facilities for banks, money funds and commercial paper issuers have all significantly enhanced liquidity and helped improve market conditions.

**Priorities for Remaining TARP Funds**

We have evaluated options for most effectively deploying the remaining TARP funds, and have identified three critical priorities. First, we must continue to reinforce the stability of the financial system, so that banks and other institutions critical to the provision of credit are able to support economic recovery and growth. Although the financial system has stabilized, both banks and non-banks may well need more capital given their troubled asset holdings, projections for continued high rates of foreclosures and stagnant U.S. and world economic conditions. Second, the important markets for securitizing credit outside of the banking system also need support. Approximately 40 percent of U.S. consumer credit is provided through securitization of credit card receivables, auto loans and student loans and similar products. This market, which is vital for lending and growth, has for all practical purposes ground to a halt. Addressing these two priorities will have powerful impacts on the overall financial system, the strength of our financial institutions and the availability of consumer credit. Third, we continue to explore ways to reduce the risk of foreclosure.

Over these past weeks we have continued to examine the relative benefits of purchasing illiquid mortgage-related assets. Our assessment at this time is that this is not the most effective way to use TARP funds, but we will continue to examine whether targeted forms of asset purchase can play a useful role, relative to other potential uses of TARP resources, in helping to strengthen our financial system and support lending. But other strategies I will outline will help to alleviate the pressure of illiquid assets.

**Further Strategies**

First, we are designing further strategies for building capital in financial institutions. Stronger capital positions will enable financial institutions to better manage the illiquid assets on their books and better ensure that they remain healthy. Any future program should maintain our principle of encouraging participation of healthy institutions while protecting taxpayers. We are carefully evaluating programs which would further leverage the impact of a TARP investment by attracting private capital, potentially through matching investments. In developing a potential matching program, we will also consider capital needs of non-bank financial institutions not eligible for the current capital program; broadening access in this way would bring both benefits and challenges. Non-bank financial institutions provide credit that is essential to U.S. businesses and consumers. However, many are not directly regulated and are active in a wide range of businesses, and taxpayer protections in a program of this sort would be more difficult to achieve. Also before embarking on a second capital purchase program, the first one must be completed, and we have to assess its impact and use this information to evaluate the size and focus of an additional program in light of existing economic and market conditions.

Second, we are examining strategies to support consumer access to credit outside the banking system. To date, Fed, FDIC and Treasury programs have been targeted at our banking system, and the non-bank consumer finance sector continues to face difficult funding issues. Specifically, the asset-backed securitization market has played a critical role for many years in lowering the cost and increasing the availability of consumer finance. This market is currently in distress, costs of funding have skyrocketed and new issue activity has come to a halt. Today, the illiquidity in this sector is raising the cost and reducing the availability of car loans, student loans and credit cards. This is creating a heavy burden on the American people and reducing the number of jobs in our economy. With the Federal Reserve we are exploring the development of a potential liquidity facility for highly-rated AAA asset-backed securities. We are looking at ways to possibly use the TARP to encourage private investors to come back to this troubled market, by providing them access to federal financing while protecting the taxpayers' investment. By doing so, we can lower costs and increase credit availability for consumers. Addressing the needs of the securitization sector will help get lending going again, helping consumers and supporting the U.S. economy. While this securitization effort is targeted at consumer financing, the program we are evaluating may also be used to support new commercial and residential mortgage-backed securities lending.

Third, we are examining strategies to mitigate mortgage foreclosures. In crafting the financial rescue package, we and the Congress agreed that Treasury would use its leverage as a major purchaser of troubled mortgages to work with servicers and achieve more aggressive mortgage modification standards. Now that we are not planning to purchase illiquid mortgage assets, we must find another way to meet that commitment.

FDIC Chairman Bair has given us a model, in the mortgage modification protocol she developed with IndyMac Bank. Through the end of October, the FDIC has completed loan modifications for 3,500 borrowers, with several thousand more modifications currently being processed. These modifications have reduced payments for participating homeowners by an average of $380 month, or about 23 percent. We have worked with the FHFA, the GSEs, HUD and the Hope Now alliance who yesterday announced a streamlined industry-wide modification program that for the first time adopts an explicit affordability target similar to the model pioneered at IndyMac. With this commitment, the GSEs and large portfolio investors are setting a new industry standard for foreclosure mitigation. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes at an affordable monthly mortgage payment.

Beyond these efforts, there has been significant work to design and evaluate a number of proposals to induce further modifications. Each of these would, however, require substantial government subsidies. The FDIC, for example, has developed a proposal that Treasury and others in the Administration continue to discuss. I believe it is an important idea. As we evaluate the merits of any new proposal, we also will have to identify and justify the means to finance it. We must be careful to distinguish this type of assistance, which essentially involves direct spending, from the type of investments that are intended to promote financial stability, protect the taxpayer, and be recovered under the TARP legislation. Maximizing loan modifications, nonetheless, is a key part of working through the housing correction and maintaining the quality of communities across the nation, and we will continue working hard to make progress here.

We will continue to pursue the three strategies I have just outlined: how best to strengthen the capital base of our financial system; how best to support the asset-backed securitization market that is critical to consumer finance, and how to increase foreclosure mitigation efforts. All of these strategies are important, but ensuring the financial system has sufficient capital is essential to getting credit flowing to consumers and businesses and that is where the bulk of the remaining TARP funds should be deployed --- in a program to support the system and as a contingency reserve for addressing any unforeseen systemic events.

We are focused on developing and preparing programs which can be implemented for each of these strategies. We will continue to brief President-elect Obama's transition team on all of these issues.

**Global Challenge**

Of course managing through this market turmoil while mitigating the impact of the credit crisis is a global as well as a national issue. We in the U.S. are well aware and humbled by our own failings and recognize our special responsibility to the global economy. The U.S. housing correction exposed gaping shortcomings in the outdated U.S. regulatory system, shortcomings in other regulatory regimes and excesses in U.S. and European financial institutions. These institutions found themselves with large holdings of structured products, including complex and opaque mortgage-backed securities. Some European institutions were characterized by high leverage, exposure to their own housing markets, exposure to Central European institutions, weak business models or overly aggressive expansion, while others faced weaknesses because of inadequate depositor protection systems. It should not be surprising that after 13 months of stress in the global capital markets, banks from the U.S. to the U.K., from Germany to Iceland, from Russia to France, had difficulties that exposed some of these weaknesses for the first time. For some of these banks, this proved to be a hurdle too high and government action was necessary to support financial stability.

In that regard the G7 Finance Ministers meeting last month represented a major turning point in stabilizing the global financial system as the ministers came together to support a number of powerful strategies that were soon turned into effective actions in the United States and Europe. It is also clear that our first priority must be recovery and repair. And of course we must take strong actions to fix our system so that the world does not have to suffer something like this ever again. The Leaders summit President Bush will be hosting this weekend marks a very important step in what will be an ongoing process of recovery and reform.

And to adequately reform our system, we must make sure we fully understand the nature of the problem which will not be possible until we are confident it is behind us. Of course, it is already clear that we must address a number of significant issues, such as improving risk management practices, compensation practices, oversight of mortgage origination and the securitization process, credit rating agencies, OTC derivative market infrastructure and regulatory policies, practices and regimes in our respective countries. And we recognize that our financial institutions and our markets are global, but our regulatory regimes are national, so we will examine how best to improve cooperation and information sharing to foster global financial system stability.

But let us not forget one fundamental issue which lies at the heart of our problems. Over a period of years, persistent and growing global imbalances fueled a dramatic increase in capital flows, low interest rates, excessive risk taking and a global search for return. Those excesses cannot be attributed to any single nation. There is no doubt that low

U.S. savings are a significant factor, but the lack of consumption and accumulation of reserves in Asia and oil-exporting countries and structural issues in Europe have also fed the imbalances.

If we only address particular regulatory issues – as critical as they are – without addressing the global imbalances that fueled recent excesses, we will have missed an opportunity to dramatically improve the foundation for global markets and economic vitality going forward. The pressure from global imbalances will simply build up again until it finds another outlet.

The nations attending this weekend's summit represent the 20 largest economies in the world – over 77 percent of global GDP. President Bush is convening this group of countries to discuss and address problems such as global imbalances, making regulatory regimes more effective, fostering cooperation among regulators, and reforming international institutions to better address today's global economy. We can't simply task the IMF, the FSF or other International Financial Institutions to solve the problems, unless member nations all see that they have a shared interest in a solution. There are no easy answers, because until we reach a consensus on a broad-based reform agenda, we will not reach a solution. This weekend provides an opportunity for nations to take an important step, but only one step, on the necessary path to reform.

**Conclusion**

The road ahead, for the U.S. economy and the global economy, is full of challenges. And it will take strong leadership to address them. I am confident the United States, under this and the next Administration, will rise to these challenges. I will do everything I can to put us on the right path, both by working diligently through the end of my term and by working closely to ensure the smoothest possible transition.

# Agencies Issue Final Rule to Implement Unlawful Internet Gambling Enforcement Act

11/12/2008

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HP-1266

**Washington -** The Department of the Treasury and the Federal Reserve Board today announced the release of a joint final rule to implement the Unlawful Internet Gambling Enforcement Act of 2006. The Act prohibits gambling businesses from knowingly accepting payments in connection with unlawful Internet gambling, including payments made through credit cards, electronic funds transfers, and checks.

The Board and the Treasury are required by the Act to develop a joint rule in consultation with the Department of Justice. The final rule requires U.S. financial firms that participate in designated payment systems to establish and implement policies and procedures that are reasonably designed to prevent payments to gambling businesses in connection with unlawful Internet gambling. The rule provides non-exclusive examples of such policies and procedures and sets out the regulatory enforcement framework. For purposes of the rule, unlawful Internet gambling generally would cover the making of a bet or wager that involves use of the Internet and that is unlawful under any applicable federal or state law in the jurisdiction where the bet or wager is initiated, received, or otherwise made.

Compliance with the rule is required by December 1, 2009.

The *Federal Register* notice is attached.

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**REPORTS**

- Final Rule

## Treasury Designates the Union of Good

11/12/2008

HP-1267

**Washington, DC-**The U.S. Department of the Treasury today designated the Union of Good, an organization created by Hamas leadership to transfer funds to the terrorist organization.

"Terrorist groups such as Hamas continue to exploit charities to radicalize vulnerable communities and cultivate support for their violent activities," said Stuart Levey, Under Secretary for Terrorism and Financial Intelligence. "The U.S. Government will continue to expose and undermine the activities of charities working on behalf of Hamas and other terrorist groups. At the same time, we are working with the charitable sector to expand the range of legitimate alternatives forproviding charitable assistance to the Palestinian people."

Union of Good was designated today under Executive Order 13224, which targets terrorists, terrorist organizations, and those providing financial, technological, or material support to terrorists, terrorist organizations, or acts of terrorism. Any assets the Union of Good holds under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with the Union of Good.

The leadership of Hamas created the Union of Good in late-2000, shortly after the start of the second Intifada, in order to facilitate the transfer of funds to Hamas. The Union of Good acts as a broker for Hamas by facilitating financial transfers between a web of charitable organizations--including several organizations previously designated under E.O. 13224 for providing support to Hamas--and Hamas-controlled organizations in the West Bank and Gaza. The primary purpose of this activity is to strengthen Hamas' political and military position in the West Bank and Gaza, including by: (i) diverting charitable donations to support Hamas members and the families of terrorist operatives; and (ii) dispensing social welfare and other charitable services on behalf of Hamas.

Among the primary financiers of Union of Good projects are several organizations designated pursuant to E.O. 13224 for providing support to Hamas and other terrorist groups, including the International Palestine Relief and Development Fund (Interpal), Al- Aqsa Foundation, Comite de Bienfaisance et de Secours aux Palestiniens (CBSP), the Association de Secours Palestiniens (ASP) of Switzerland, the Palestinian Association in Austria (PVOE), and the Sanabil Association for Relief and Development in Lebanon. The Union of Good facilitates the transfer of tens of millions of dollars a year to Hamas- managed associations in the West Bank and Gaza Strip.

Funds raised by the Union of Good affiliates have been transferred to Hamas-managed organizations in the West Bank and Gaza. In addition to providing cover for Hamas financial transfers, some of the funds transferred by the Union of Good have compensated Hamas terrorists by providing payments to the families of suicide bombers. One of them, the Al-Salah Society, previously identified as a key support node for Hamas, was designated in August 2007 under E.O. 13224. The Society employed a number of members of the Hamas military wing and supported Hamas-affiliated combatants during the first Intifada.

The Union of Good's executive leadership and board of directors includes Hamas leaders, Specially Designated Global Terrorists (SDGTs), and other terrorist supporters. The secretary general of the Union of Good, for example, also acts as the vice-chairman of the United Kingdom-based Interpal, which was designated in 2003 for providing financial support to Hamas under the cover of charitable activity. As of mid-2007, this official served on the Hamas executive committee under Hamas leader Khaled Misha'al.

Board members of the Union of Good include a West Bank Hamas member, and Abd alMajid al-Zindani, a Yemen-based Hamas fundraiser who was designated pursuant to E.O. 13224 in 2004 for providing support to al-Qaida. In 2006, Zindani delivered a fundraising speech at a Hamas conference in Yemen where the crowd pledged millions of riyals for Hamas.

The United States is also actively working with the Arab-American community and other interested donors to provide alternate relief mechanisms to the Palestinian people as we take action against the HAMAS charitable infrastructure.

**Identifying Information**

**UNION OF GOOD**
**AKAs:**
Charity Coalition
Coalition of Good
I'tilaf Al-Khair
I'tilaf Al-Khayr
101 Days Campaign
Etelaf Al-Khair

**Address:**
P.O. Box 136301, Jeddah, Saudi Arabia 21313

## Treasury Action Targets Burmese Drug Cartel

11/13/2008

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HP-1268

**Washington, DC--**The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today named 26 individuals and 17 companies tied to Burma's Wei Hsueh Kang and the United Wa State Army (UWSA) as Specially Designated Narcotics Traffickers pursuant to the Foreign Narcotics Kingpin Designation Act (Kingpin Act).

"The United Wa State Army is the largest and most powerful drug trafficking organization in Southeast Asia and is a major producer and exporter of synthetic drugs, including methamphetamine," said OFAC Deputy Director Barbara C. Hammerle. "Today OFAC is targeting the Wa's lieutenants and the financial holdings of this massive drug trafficking organization. We call on other nations to do the same."

On June 1, 2000, the President identified Wei Hsueh Kang as a significant foreign narcotics trafficker under the Kingpin Act. Wei is a senior commander of the UWSA, which the President subsequently identified as a significant foreign narcotics trafficker on May 29, 2003. In January 2005, federal prosecutors in the Eastern District of New York unsealed a criminal indictment charging Wei, along with his brothers Wei Hsueh Lung and Wei Hsueh Ying, who are designated today, for narcotics trafficking. The U.S. Department of State is offering a reward of up to $2,000,000 for information leading to Wei Hsueh Kang's capture.

Other key individuals designated by OFAC today are Pao Yu Hsiang, Ho Chun Ting and Shih Kuo Neng. Pao Yu Hsiang, indicted in 2005 with Wei Hsueh Kang, is the Commander-in-Chief of the UWSA. In May 2005, prosecutors in the Eastern District of New York charged Ho Chun Ting and Shih Kuo Neng, among others, with money laundering and narcotics trafficking. In October 2007, Hong Kong authorities arrested Ho Chun Ting, a partner of Wei Hsueh Kang, but Hong Kong later released him for unknown reasons. Shih Kuo Neng is the manager of the Hong Pang conglomerate of companies, many of which are also designated today.

Today's designation would not have been possible without key support from the Drug Enforcement Administration's offices in Thailand and the U.S. Attorney's Office in the Eastern District of New York.

This action is part of ongoing efforts under the Kingpin Act to apply financial measures against significant foreign narcotics traffickers worldwide. Internationally, 419 businesses and individuals associated with 75 drug kingpins have been designated by OFAC pursuant to the Kingpin Act since June 2000.

The designation action freezes any assets the 43 designees may have under U.S. jurisdiction and prohibits U.S. persons from conducting transactions or dealings in the property interests of the designated individuals and entities. Penalties for violations of the Kingpin Act range from civil penalties of up to $1,075,000 per violation to more severe criminal penalties. Criminal penalties for corporate officers may include up to 30 years in prison and fines up to $5,000,000. Criminal fines for corporations may reach $10,000,000. Other individuals face up to 10 years in prison, and fines pursuant to Title 18 of the United States Code, for criminal violations of the Kingpin Act.

## Paulson to Discuss Economy and Markets

11/13/2008

HP-1269

Secretary Henry M. Paulson, Jr. will discuss the economy and financial markets Monday at a meeting of the Wall Street Journal CEO Council. The meeting will bring together CEOs of major global companies for a two day meeting on the economy and the issues ahead.

**Who**
Secretary Henry M. Paulson, Jr.

**What**
Discussion on the Economy and Markets

**When**
Monday, November 17, 6:30 p.m. EST

**Where**
Four Seasons Hotel
2800 Pennsylvania Avenue, NW
Washington, D.C.

**Note**
Press must pre-register at https://ceocouncil.wsj.com/press.html. Check-in will be open from 3:00 - 6:00 p.m. Monday.

## Setting the Record Straight

11/13/2008

HP-1270

***Today's story in the Washington Post ("Bailout Lacks Oversight Despite Billions Pledged" - 11/13/2008) leaves out critical steps taken by Treasury to ensure that there is strong oversight in place as the Emergency Economic Stabilization Act is implemented.***

- Treasury worked with Congress to put strong oversight and transparency provisions in the bill and every reporting requirement in the statute has been fully met on time. All reports have been published on the Treasury's website.
- The law created a new Special Inspector General for the program, and that position has to be confirmed by the Senate. The Administration has been working to identify a qualified candidate and will work closely with the Senate when a nominee is chosen.
- GAO has been on site from the beginning as Treasury has implemented the Emergency Economic Stabilization Act. Within days of the bill being signed, the Acting Comptroller General spoke with Secretary Paulson and with Interim Assistant Secretary Kashkari. GAO has had a team of over a dozen specialists and senior executives working on all aspects of the program. GAO staff typically meets with Treasury staff several times a week. They have access to contract files as soon as each contract is completed, and they often begin their review of those files within 24 hours of a contract signing. Every contract is posted on the Treasury website.
- The Financial Stability Oversight Board was organized and met within days of the bill's enactment, well before the statutory deadline. EESA required the board to meet within 14 days of enactment, and monthly thereafter. In fact, the board met within 4 days of enactment, and has met 4 times in the 5 weeks since EESA was enacted. Meetings have been held both to review overall implementation of EESA as well as to consider establishment of the Capital Purchase Program and TARP's investment in American International Group. It has published bylaws and meeting minutes, elected a chair, and appointed a secretary, counsel, and staff-level executive director.
- Treasury has provided regular briefings to staff from the Congressional oversight committees and leadership offices on its implementation of the legislation.
- Treasury is prepared to work closely with the Congressional

# PWG Announces Initiatives to Strengthen OTC Derivatives Oversight and Infrastructure

11/14/2008

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HP-1272

**Washington-** The President's Working Group on Financial Markets today announced a series of initiatives to strengthen oversight and the infrastructure of the over-the-counter derivatives market.

Initiatives announced today include the development of credit default swap central counterparties, some of which will commence operations before the end of 2008, and the establishment of a Memorandum of Understanding regarding CDS central counterparties among the Federal Reserve Board of Governors, the Securities and Exchange Commission and the Commodity Futures Trading Commission. The PWG also announced a broad set of policy objectives to guide efforts to address the full range of challenges associated with OTC derivatives and issued a progress summary to provide an overview of the results of ongoing efforts to strengthen the infrastructure of OTC derivatives markets.

The Treasury Secretary serves as chair of the group, which includes the Chairs of the Federal Reserve Board, the Securities and Exchange Commission, and the Commodity Futures Trading Commission. The PWG, working with the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York, has been actively overseeing improvements underway in OTC derivatives markets and the reports issued today identify the progress already made and specific objectives for the relevant supervisors going forward.

Over-the-counter derivatives are integral to the smooth functioning of today's complex financial markets and, with appropriate regulatory oversight and prudent management can enhance the ability of market participants to manage risk. The rapid growth of OTC derivatives markets over the past several years reflects their increasing importance to market participants.

**Development of CDS Central Counterparties**

The PWG's top near-term OTC derivatives priority is to oversee the successful implementation of central counterparty services for credit default swaps. A well-regulated and prudently managed CDS central counterparty can provide immediate benefits to the market by reducing the systemic risk associated with counterparty credit exposures. It also can help facilitate greater market transparency and be a catalyst for a more competitive trading environment that includes exchange trading of CDS.

At the prompting of the PWG, several potential central counterparty providers have accelerated the development of their efforts. The relevant regulatory authorities are assessing these central counterparty proposals by conducting detailed on-site reviews of risk management and other key design elements. After completing the on-site reviews, regulators expect to proceed toward regulatory approvals and/or exemptions expeditiously and anticipate that one or more CDS central counterparties will commence operations before the end of 2008.

**Memorandum of Understanding among the CFTC, SEC and Federal Reserve**

To facilitate the regulatory approval process and to promote more consistent regulatory oversight, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission and the Commodity Futures Trading Commission today signed a Memorandum of Understanding. The Memorandum of Understanding establishes a framework for consultation and information sharing on issues related to CDS central counterparties.

**The PWG's Policy Objectives for OTC Derivatives**

The PWG is announcing a set of additional policy objectives to guide efforts to address challenges associated with OTC derivatives, consistent with the recommendations of the Financial Stability Forum.

U.S. and foreign supervisors embarked on an effort in 2005 to improve how market participants manage their OTC derivatives operations, which had not matured sufficiently to support increased trading volumes. These efforts sought to enhance other elements of the market infrastructure, reduce systemic risk and address operational risks that have accompanied the growth of OTC derivatives.

In light of recent developments, the PWG is issuing broader objectives than those that motivated the PWG's previous OTC derivatives recommendations in the March 13 PWG Policy Statement on Financial Market Developments.

The PWG has established the following policy objectives:

1) improve the transparency and integrity of the credit default swaps market;

2) enhance risk management of OTC derivatives;

3) further strengthen the OTC derivatives market infrastructure;

4) strengthen cooperation among regulatory authorities.

The agencies in the PWG will work with other regulators and market participants to achieve these goals over the next several months. Where necessary, they will support legislative change.

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**REPORTS**

- MOU
- Progress Summary
- Policy Objectives

# Memorandum of Understanding
# Between the Board of Governors of the Federal Reserve System, The U.S. Commodity Futures Trading Commission and The U.S. Securities and Exchange Commission Regarding Central Counterparties for Credit Default Swaps

The Board, the CFTC, and the SEC each have responsibilities in overseeing certain systemically important payment, clearing, and settlement activities and certain market utilities that support those activities.

The Board has regulatory and supervisory responsibilities and authorities over banking companies, including state member banks and their subsidiaries, bank holding companies and their subsidiaries, financial holding companies and their subsidiaries, foreign banking organizations with U.S. banking operations, Edge Corporations, and Agreement Corporations. The CFTC has regulatory and supervisory responsibilities and authorities over markets and trading facilities with respect to futures on commodities, options on futures, and options on commodities as well as DCOs that clear and settle derivatives transactions and certain financial intermediaries, including futures commission merchants. The SEC has regulatory and supervisory responsibilities and authorities over Clearing Agencies, securities markets, securities brokers, securities dealers, transfer agents, certain investment advisers, investment companies, and nationally recognized statistical rating organizations.

This MOU reflects the Parties' intent to cooperate, coordinate and share information, including by establishing regulatory liaisons, in carrying out their respective responsibilities and exercising their respective authorities with regard to Central Counterparties for credit default swaps. The Parties have a common interest in strengthening the infrastructure supporting the clearing and settlement of credit default swaps. A Central Counterparty for credit default swaps may be one or more of the following: a state-chartered bank that is a member of the Federal Reserve; a DCO; or a Clearing Agency.

The Parties recognize the importance of cooperation and coordination in their respective approval, ongoing supervision, and oversight of CCPs for credit default swaps, and that sharing information concerning such CCPs is important in maintaining effective oversight, fostering stability in the market for credit default swaps and in the financial system as a whole, and promoting compliance with the banking, commodities, and securities laws. The Parties further recognize that cooperation and coordination enhance the ability of the Parties to effectively carry out their respective statutory responsibilities and minimize duplicative efforts.

## ARTICLE I: DEFINITIONS

For the purposes of the MOU:

"Board" shall refer to the Board of Governors of the Federal Reserve System.

"CCP," or Central Counterparty, shall refer to any entity that is engaged in the business of interposing itself, either through a guarantee or as a principal, between counterparties in providing clearing and settlement facilities for the post-trade processing of OTC credit default swap transactions or both OTC and exchange-traded credit default swap transactions. This definition does not include interdealer brokers or financial institutions providing prime brokerage services.

"CDS" shall refer to credit default swaps.

"CEA" shall refer to the Commodity Exchange Act.

"CFTC" shall refer to the Commodity Futures Trading Commission.

"Clearing Agency" shall refer to a clearing agency as defined by the Exchange Act.

"DCO" shall refer to a derivatives clearing organization as defined in Section 1a(9) of the CEA and that is registered with the CFTC.

"Exchange Act" shall refer to the Securities Exchange Act of 1934.

"Federal Reserve" shall refer to the Board and the individual Federal Reserve Banks, except that when used with respect to a particular CCP that is supervised by the Federal Reserve, it shall mean the Board and the appropriate Federal Reserve Bank that has primary responsibility for supervising the CCP.

"MOU" shall refer to this Memorandum of Understanding.

"OTC" shall refer to over-the-counter.

"Parties" shall refer to the Board or Federal Reserve, as appropriate, CFTC, and SEC, collectively.

"RFPA" shall refer to the Right to Financial Privacy Act of 1978.

"SEC" shall refer to the Securities and Exchange Commission.

## ARTICLE II: GENERAL PROVISIONS

1. This MOU is a statement of intent of the Parties to coordinate, cooperate and share information in connection with the respective oversight, regulatory and supervisory responsibilities and authorities of the Parties regarding CCPs in a manner consistent with, and permitted by, the laws and requirements that govern the Parties. The Board, CFTC, and SEC each acknowledge the other Parties' respective needs for and interests in the information to be shared and in coordinating their respective regulatory and supervisory activities related to CCPs.

2. The MOU does not create legally binding obligations on the Parties and does not create any right enforceable against the Parties or any of their officers or employees or any other person. The MOU also does not confer upon any third party any right and specifically does not confer on any third party the ability directly or indirectly to obtain, suppress, or exclude any information shared pursuant to this MOU, or to challenge the execution of a request under the MOU.

3. The MOU is intended to complement, but does not alter the terms and conditions of, existing bilateral or multilateral arrangements concerning cooperation in supervisory, enforcement or other matters between the Parties. To the extent any provision in this MOU is construed to be in conflict with a provision in another arrangement between the relevant Parties, the provision in this MOU shall govern the arrangements between such Parties in connection with a CCP. In addition, the Parties encourage their respective staffs to maintain ongoing, ad hoc, communications to ensure coordination, as appropriate, of their respective day-to-day operations.

4. Nothing in the MOU modifies in any way the ability and responsibility of the Parties to enforce their respective statutes and regulations.

5. Nothing in this MOU shall be deemed to diminish or impair in any way the independence of the Board, the SEC or the CFTC in any of their respective functions.

6. Nothing in this MOU shall be deemed to obligate the Parties to create or maintain any information.

7. The Parties intend periodically to review the functioning and effectiveness of this MOU in light of, among other things, changes in applicable law or international standards relating to CCPs and the Parties' experience in implementing the MOU with a view to expanding or altering the scope or operation of the MOU as appropriate.

## ARTICLE III: COORDINATION, COOPERATION, AND SHARING INFORMATION RELATING TO CCPs

8. The Parties recognize that the use of consistent principles in the supervision and regulation of CCPs is important to promote the effective and efficient supervision and regulation of CCPs, minimize the burden on CCPs, and reduce duplication of effort by the Parties. Consistent with otherwise applicable statutes and rules, the Parties will take into account in setting supervisory expectations for CCPs, among other things, the "Recommendations for Central Counterparties" developed by the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries in conjunction with the Technical Committee of the International Organization of Securities Commissions.

9. The Parties agree to cooperate and, to the extent requested, share information in connection with the fulfillment of their respective supervisory and regulatory responsibilities for CCPs. Without limiting the generality of the foregoing, the Parties agree:

   a. To the extent practicable and as appropriate in the particular circumstances, to inform each other, in advance where feasible and otherwise as soon as practicable, of issues that may affect the respective regulatory or supervisory interests of the other Party or Parties with respect to CCPs and CDS;

   b. To consult with each other and, to the extent requested, share information concerning the review and approval of any proposed CCP, including the manner in which a proposed CCP will be assessed against applicable regulatory or supervisory rules or expectations;

   c. To consult with each other and, to the extent requested, share information concerning material proposed changes to the rules, policies or procedures of a CCP regarding the CCP's risk management systems, internal controls, liquidity and financial resources, operations, or governance;

   d. To consult with each other and, to the extent requested, share information, including examination reports or results where appropriate, regarding the financial condition, risk management systems, internal controls, liquidity and financial resources, operations and governance of a CCP; and

   e. That information requests under the MOU shall not be overly burdensome and, upon request, shall be initiated by written request.

10. The Parties also agree to consult with each other and, to the extent requested, share information concerning the market for CDS and the Parties' assessments of the conditions in such market.

11. Each Party agrees to designate an individual to serve as its primary regulatory liaison with the other Parties to arrange and facilitate ongoing and periodic discussions and meetings related to matters under this MOU. The Liaison will, among other things, discuss and specify details for implementing this Article III including matters such as the specific reports or categories of information that will be subject to information sharing, the frequency with which such information will be shared, and the particular person(s) within each Party to receive the information.

**ARTICLE IV: PERMISSIBLE USES AND CONFIDENTIALITY OF INFORMATION**

12. For purposes of this Article IV, the Federal Reserve, CFTC or SEC is referred to as the "Providing Party" when it is providing information to one or both of the other Parties and is referred to as the "Receiving Party" when it is receiving information from one or both of the other Parties. This Article IV applies only to information shared under this MOU and does not apply to information obtained by the Federal Reserve, the CFTC or the SEC directly from a CCP pursuant to such agency's own authority.

13. To the extent permitted by applicable laws (including with respect to the CFTC, 7 USC § 12) and in accordance with the regulations of the Providing Party, the Parties will maintain the confidentiality of all non-public information obtained pursuant to this MOU and will not disclose such information to any person outside the Federal Reserve, CFTC, or SEC. In addition, when acting as a Receiving Party, the Federal Reserve, CFTC, and SEC will:

    a. establish and maintain such safeguards as are necessary and appropriate to protect the confidentiality of any non-public information provided pursuant to this MOU, as well as any information derived therefrom;

    b. notify the Providing Party in writing, as soon as practicable, of any legally enforceable demand or request for such information (including but not limited to, a subpoena, court order, or request pursuant to the Freedom of Information Act), provide the Providing Party a reasonable opportunity to respond to the demand or request prior to complying with the demand or request, and assert all such legal exemptions or privileges on behalf of the Providing Party as the Providing Party may reasonably request be asserted;

    c. not grant any other demand or request for the information, not furnish the information to any third party, make public any portions of the information or information derived therefrom, or make public use of the information, without the prior written permission of the Providing Party; and

    d. consent to application by the Providing Party to intervene in any related action solely for the purposes of asserting and preserving any of its privileges or claims of confidentiality with respect to non-public information it provided.

14. <u>Use of Information Shared by the Parties under this MOU</u>

    a. The Parties intend to continue their ongoing practice of sharing information between their enforcement functions and nothing in this MOU, including this Article IV, is intended to modify or replace such sharing or the current practices of the Parties governing and permitting the use of such enforcement referral information by a Receiving Party.

    b. Information received under this MOU from a Providing Party that, in the judgment of the Providing Party, reflects the judgment, analysis, opinion or findings of the Providing Party may be used by the Receiving Party for or in any enforcement investigation, proceeding, or civil action only with the written consent of the Providing Party. In considering whether to grant consent under this paragraph, the Providing Party will take into account, among other things, the public interest, applicable law, and the need to protect its judgments, analyses, opinions and findings to preserve the integrity of its supervision, enforcement, examination and oversight processes.

    c. A Receiving Party may use non-public information (other than information referred to in subparagraph b.) that was received from a Providing Party and obtained by such Providing Party from a person that the Receiving Party has authority to examine regularly for or in any enforcement investigation, proceeding or civil action. Notwithstanding the preceding sentence, the Receiving Party may disclose any non-public information described in the preceding sentence to a third party or to the public only with the written consent of the Providing Party as provided in paragraph 13.c. above. For purposes of this subparagraph c., the term “third party” shall not include a person or entity, such as a consultant or expert, retained by the Receiving Party to assist in the conduct of an examination, inspection, enforcement investigation, proceeding or civil action and who has signed a non-disclosure agreement with the Receiving Party that obligates the person to comply with the restrictions in this Article IV.

d. The Parties share a strong common interest in maintaining an open flow of information in the supervisory and oversight processes involving CCPs under their respective supervision or oversight. As a matter of principle, the Parties agree that issues raised by information obtained from a Providing Party and not dealt with under subparagraphs a., b., or c. above should be addressed through supervisory or oversight means and should be addressed through the enforcement function only if supervisory and oversight tools are inadequate or ineffective. The Parties intend to apply this prudential supervisory and oversight approach with respect to information shared under this MOU that is not otherwise dealt with under subparagraphs a., b., or c. above. Each Party will promptly inform and consult with the other Parties in the event the Party intends to change this practice, either as a general matter or with regard to a specific CCP and in any case in which information under this subparagraph is to be used for or in connection with any enforcement investigation, proceeding, or civil action.

15. Nothing in the MOU waives or alters any provision of any applicable laws relating to non-public information.

16. The Parties agree to take all actions reasonably necessary to preserve, protect, and maintain all privileges and claims of confidentiality related to non-public information provided pursuant to the MOU, in accordance with applicable law.

17. The Parties intend that sharing of non-public information with each other pursuant to the terms of the MOU will not constitute public disclosure, nor will it constitute a waiver of confidentiality or any privilege applicable to such information. The Board has authorized the disclosure of information to the CFTC and SEC under this MOU subject to the provisions of 12 U.S.C. § 1821(t). The Parties expressly reserve all evidentiary privileges and immunities applicable to the information shared under this MOU.

18. In the event that the files or information provided by the Parties to each other pursuant to this MOU contain "financial records" of "customers" of "financial institutions," as those terms are defined in the RFPA, the exchange of such information is exempt from the customer notice requirement of Sections 1112(a) and (b) of the RFPA.

19. Nothing in this MOU should be construed to prohibit a Party from complying with an order of a court of competent jurisdiction.

20. Point(s) of Contact

The Parties designate the following persons as their point(s) of contact for issues related to the interpretation or application of this MOU and any authorizations, approvals or notices of requested modifications under this MOU:

a. With respect to the Board, its *General Counsel*, or his or her designee.

b. With respect to the CFTC, the *Director of the Division of Clearing and Intermediary Oversight,* or his or her designee.

c. With respect to the SEC, the *Director of the Division of Trading and Markets,* or his or her designee.

**ARTICLE V: EFFECTIVE DATE AND TERMINATION**

The MOU shall become effective as of the date of its signing, shall remain in effect unless terminated by any Party, and may be revised or modified on written agreement of all Parties. The Party recommending the revision or modification shall provide the other Parties with 30 days' written notice of the proposed change.

Any of the Parties may terminate the MOU upon 30 days' written notice to the other Parties. Following the termination, all information that was provided subject to this MOU shall remain confidential and shall continue to be governed by the terms of Article IV.

Agreed to this ___________ day of November 2008.

________________________________________

Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System

________________________________________

Walter L. Lukken
Acting Chairman
Commodity Futures Trading Commission

________________________________________

Christopher Cox
Chairman
Securities and Exchange Commission

# PWG Progress Summary on OTC Derivatives Operational Improvements

In 2005, the supervisors of major U.S. and foreign over-the-counter (OTC) derivatives dealers expressed concern over the rapid growth of the credit derivatives market and the resulting operational risks. In addition to the high and growing level of unconfirmed trades, participants were assigning trades without informing the original counterparty, and there were a large number of processing and payment errors. These issues underscored that existing infrastructure was not sufficiently scalable to support the rapid growth of the market. Regulators embarked on a collective effort to improve participants' management of their OTC derivatives operations.

To address these issues, major credit derivatives dealers focused on improvements in automation and on developing and standardizing legal documentation such as standard contract terms in order to make more products eligible for electronic processing. These efforts led to the following accomplishments:

- Since 2005, dealers have reduced by 92% the backlog of credit derivative confirmations outstanding more than 30 days while trade volumes have increased by more than 300%.

- Market participants adopted a protocol which requires participants to request original counterparty consent before assigning trades to a third party, to ensure that market participants know their counterparties at all times. The industry has also mandated the practice of assigning trades to be done via electronic platforms by year-end 2008.

- DTCC launched Deriv/SERV, which electronically matches and confirms OTC credit derivatives. Additionally, DTCC launched the Trade Information Warehouse (TIW), a central repository with a legal copy of all electronic transactions which facilitates the processing of various events that can occur throughout the life of the trades.

- Market participants implemented an automated settlement process that allows the netting of quarterly CDS payments across multiple counterparties. The rate of payment errors has declined by more than 50% since this process was established

Over time, dealers' efforts have been expanded to other OTC derivatives asset classes including equity, interest rate, commodity, and foreign exchange. Participation in these initiatives was also broadened to include major buy-side firms and industry associations.

Additionally, the focus on improvements in trade processing efficiency was broadened to include front office trade capture. The following improvements were achieved:

- Market participants have dramatically increased the rate of electronic processing for OTC derivative products. Between November 2006 and September 2008, electronic processing increased from 47% to 92% for credit derivatives, from 9% to 24% for equity derivatives, and from 30% to 56% for interest rate derivatives.

- For electronically eligible credit derivative trades, major dealers have improved the timeliness and accuracy of trade submission and matching with the majority of trades submitted and matched on or near trade date.

Market participants have also broadened their focus to include enhancements in market design and risk management as follows:

- Market participants, together with regulators, have accelerated efforts to achieve central counterparty clearing in credit default swaps. A well-regulated and prudently managed CDS CCP can provide benefits to the market by reducing the systemic risk associated with counterparty credit exposures.

- Market participants are continuing their efforts to reduce the number of outstanding credit derivatives trades through multilateral trade terminations, or tear-ups, in order to reduce aggregate counterparty credit exposures and operational risk. To date in 2008, dealers have eliminated notional amounts of outstanding credit derivative trades by $24.4 trillion, or more by than one-third, through multilateral trade terminations.

- DTCC has begun publishing aggregate data on credit default swaps in an effort to increase market transparency.

- Standard methodology is being developed to manage the failure of a major counterparty, and market participants achieved a successful and orderly close-out of their trades with Lehman Brothers.

- The industry is working to include language in the legal framework to mandate participation in an auction that will facilitate orderly resolution of CDS settlement following credit events.

# President's Working Group on Financial Markets
# Policy Objectives for the OTC Derivatives Market

Under the auspices of the PWG, the Secretary of the Department of the Treasury, the Chairs of the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission and the Commodity Futures Trading Commission and the Office of the Comptroller of the Currency have established the following policy objectives for the OTC derivatives market, with a primary focus on credit default swaps.

**Improve Market Transparency and Integrity for Credit Default Swaps**

- Public reporting of prices, trading volumes and aggregate open interest should be required to increase market transparency for participants and public.
- Regulators should have access to trade and position information housed at central counterparties (CCPs) and central trade repositories for the purpose of monitoring market trends, identifying potential issues, and preventing market manipulation and insider trading.

**Enhance Risk Management of OTC Derivatives**

- Regulators should establish consistent policy standards and risk management expectations for CCPs or other systemically important derivatives market infrastructures and apply those standards consistently.
- Regulators and prudential supervisors should set consistent standards for regulated entities that transact in OTC derivatives instruments, particularly regarding risk management practices.
    - Regulators and prudential supervisors should consider how to enhance the effectiveness of existing policies applicable to OTC derivatives contracts that are not cleared by a CCP.
- Market participants should adopt best practices with respect to risk management for OTC derivatives activities, including public reporting, liquidity management, senior management oversight and counterparty credit risk management.
    - Such practices should include the use of legally-enforceable netting and collateral agreements between counterparties where possible.

**Strengthen OTC Derivatives Market Infrastructure**

- Regulators and prudential supervisors should require participants in a central counterparty arrangement to clear all eligible contracts through that CCP.
    - The use of CCPs by end-users should be encouraged by strengthening, where necessary, the legal framework governing the bankruptcy regime to ensure adequate customer protection.
- Details of all credit default swaps that are not cleared through a CCP should be retained in a central contract repository.
- Central contract repositories should be encouraged for other OTC derivatives asset classes.
- Use of exchange or similar trading platforms for standardized CDS contracts should be encouraged. These trading venues should provide pre-trade transparency to their participants. Participants should also be able to bilaterally negotiate customized contracts where there are benefits in doing so, subject to continued oversight by their prudential supervisors.
- All market participants should have open and fair access to key infrastructure components, such as trading venues, CCPs and central contract repositories.
- Prudential supervisors should continue their cooperative efforts to improve the operational infrastructure for all OTC derivatives, including encouraging further improvements to post-trade automation, frequent portfolio compression for outstanding trades and enhancing standardized documentation.

**Continue Cooperation among Regulatory Authorities**

- Regulatory agencies should review whether they have adequate enforcement authority to police against fraud and market manipulation and propose changes in authority where warranted.
- Regulatory agencies in the U.S. and other jurisdictions with significant OTC derivatives activity should expand existing frameworks for cooperation, coordination and information sharing.

# Testimony of Interim Assistant Secretary for Financial Stability Neel Kashkari Before the House Committee on Oversight and Government Reform, Subcommittee on Domestic Policy

11/14/2008

HP-1273

**Washington, DC**--Chairman Kucinich, Ranking Member Issa, members of the Subcommittee, good morning and thank you for the opportunity to appear before you. I would like to provide an update on the Treasury Department's actions to stabilize our financial markets and restore the flow of credit to the economy. We have taken action with the following three critical objectives: one, to provide stability to financial markets; two, to support the housing market by preventing avoidable foreclosures and supporting the availability of mortgage finance; and three, to protect taxpayers.

We have acted quickly and in coordination with the Federal Reserve, the FDIC, OCC and colleagues around the world to help stabilize the global financial system and it is clear that our coordinated actions have made an impact. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

At the same time, we recognize that a program as large and important as this demands appropriate oversight. We are committed to transparency and oversight in all aspects of the program and continue to take strong action to make sure we comply with the letter and the spirit of the requirements established by the Congress, including regular briefings with the Government Accountability Office, the Financial Stability Oversight Board, and the Inspector General. We are also committed to continuing to meet all of the reporting requirements established by the Congress.

**Equity Program**

As the markets rapidly deteriorated in October, it was clear to Secretary Paulson and Chairman Bernanke that the most timely, effective step to improve credit market conditions was to strengthen bank balance sheets quickly through direct purchases of equity in banks. In early October, after consulting closely with Chairman Bernanke, Secretary Paulson explained that Treasury would use the financial rescue package granted by Congress to purchase equity directly from financial institutions – the fastest and most productive way to use our new authorities to help stabilize our financial system. Working with our banking regulators, we have now approved dozens of applications from banks across the country. We will soon post the term sheet for private banks. We feel very strongly that healthy banks of all sizes, both public and private, should use this program to increase lending in their communities.

With a stronger capital base, our banks will be more confident and better positioned to play their necessary role to support economic activity. Further in support of this goal, just two days ago, our banking regulators issued a statement underscoring the responsibility that banks have in the areas of lending, dividend and compensation policies, and foreclosure mitigation. Treasury commends this action and believes it is critical to focus on the importance of prudent bank lending to restore our economic growth so that we do not repeat the poor lending practices that are a major cause of the current economic problems.

**Housing/mortgage finance**

On housing, we have worked aggressively to avoid preventable foreclosures, keep mortgage financing available and develop new tools to help homeowners. Here, I will briefly highlight three key accomplishments:

One, in October 2007, Treasury helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. Through coordinated, industry-wide action, HOPE NOW has significantly increased the outreach and assistance provided to homeowners. HOPE NOW estimates that nearly 2.5 million homeowners have been helped by the industry since July 2007; the industry is now helping about 200,000 homeowners a month avoid foreclosure.

Two, we acted earlier this year to prevent the failure of Fannie Mae and Freddie Mac, the housing GSEs that affect over 70 percent of mortgage originations. These institutions are systemically critical to financial and housing markets, and their failure would have materially exacerbated the recent market turmoil and profoundly impacted household wealth. We have stabilized the GSEs and limited systemic risk.

Three, just three days ago, HOPE NOW, FHFA and the GSEs achieved a major industry breakthrough with the announcement of a streamlined loan modification program that builds on the mortgage modification protocol developed by the FDIC for IndyMac. The adoption of this streamlined modification framework is an additional tool that servicers will now have to help avoid preventable foreclosures. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes.

**Priorities for tarp**

On Wednesday, Secretary Paulson outlined three critical priorities and related strategies for the most effective deployment of remaining TARP funds: one, to further strengthen the capital base of our financial system; two, to support the asset-backed securitization market that is critical to consumer finance; and three, to increase foreclosure mitigation efforts. These priorities are necessary to reinforce the stability of the financial system so that banks and other institutions critical to the provision of credit are able to support economic recovery and growth, and to help homeowners avoid preventable foreclosures.

Let me briefly discuss these three priorities and strategies. One, in order to continue their critical role as providers of credit, both banks and non-banks may need more capital given their troubled asset holdings, continued high rates of foreclosures, and stagnant global economic conditions. To do this, we are designing further strategies for building capital in financial institutions and are evaluating programs which would further leverage the impact of a TARP investment by attracting private capital, potentially through matching investments.

Two, we are examining strategies to support consumer access to credit outside the banking system, specifically, the asset-backed securitization market. This market has played a critical role for many years in lowering the cost and increasing the availability of consumer finance. However, the market is currently in distress and its illiquidity is raising the cost and reducing the availability of car loans, student loans and credit cards.

Three, we continue to aggressively examine strategies to mitigate foreclosures and maximize loan modifications, which are a key part of working through the necessary housing correction and maintaining the strength of our communities. The new program which I highlighted above with the FHFA, the GSEs, and HOPE NOW is just one example and we will continue working hard to make progress here.

**Conclusion**

Our system is stronger and more stable than just a few weeks ago. Although a lot has been accomplished, we have many challenges ahead of us. We will focus on the goals outlined by Secretary Paulson and develop the right strategies to meet those objectives. Foremost among these will be to ensure that the financial system has sufficient capital to get credit flowing to consumers and businesses. Thank you and I would be happy to answer your questions.

# Statement by Secretary Henry M. Paulson, Jr., on Release of Final Regulations Governing CFIUS

11/14/2008

hp-1274

**Washington** – Secretary Henry M. Paulson, Jr., issued the following statement on the Treasury Department's issuance today of final regulations implementing section 721 of the Defense Production Act, as amended by the Foreign Investment and National Security Act of 2007:

"The final regulations issued today strengthen the CFIUS process in a manner that reaffirms America's longstanding policy of openness to investment, consistent with the protection of our national security. These regulations reflect CFIUS's careful consideration of all comments submitted during the public comment period."

For the final regulations and additional background information, please visit: http://www.treas.gov/offices/international-affairs/cfius/

# Treasury Issues Debt Management Guidance on the Temporary Supplementary Financing Program

11/17/2008

HP-1275

***Washington - The balance in the Treasury's Supplementary Financing Account will decrease in the coming weeks as outstanding supplementary financing program bills mature. This action is being taken to preserve flexibility in the conduct of debt management policy in meeting the government's financing needs.***

The balance in the Treasury's Supplementary Financing Account will decrease in the coming weeks as outstanding supplementary financing program bills mature. This action is being taken to preserve flexibility in the conduct of debt management policy in meeting the government's financing needs.

# Remarks by Treasury Under Secretary For International Affairs David H. McCormick to the Barclays Asia Forum

11/12/2008

HP-1276

***"Our Economy, a Global Challenge"***

**Washington, DC** – When I was first asked to speak at Barclay's Asia Forum, I imagined I would be able join you in Singapore. I am sorry to deliver this speech via videoconference, but at least the title of my talk – "Our Economy, a Global Challenge," is more appropriate now than ever. The turmoil that started in the United States has resulted in a fundamental reassessment of risk across the globe, creating credit and liquidity pressures not only in the United States and Europe, but also in markets that seemed relatively immune to the underlying vulnerabilities. As a result, the global economy is rapidly slowing, and significant challenges and difficult policy choices lie ahead.

We should take confidence from the fact that countries around the world have responded with comprehensive actions to help stem the crisis. The Group of Seven (G-7) industrialized countries announced and are implementing a coordinated action plan to stabilize financial markets, restore the flow of credit, and support global economic growth. Others throughout Europe, Asia, and Latin America have adopted similar approaches.

While we must confront the immediate challenges before us, this crisis is also an appropriate moment to consider the more systemic issues raised by recent developments in our global financial system. It is with this in mind that President Bush chose to host the Summit on Financial Markets and the World Economy with the Group of 20 countries in Washington this weekend to determine a path forward for addressing the root causes of the turmoil. We recognize that no single country can successfully combat these economic challenges alone, and we are committed to working hand-in-hand with countries around the world to reform our regulations and institutions.

Today, I would like to take a moment to outline the actions taken by the United States to stabilize our economy and to discuss some of the larger trends that leaders may consider as they come together this weekend to determine the first steps ahead on the path to reform.

A Comprehensive Policy Response

Since August last year, when the cracks in the global financial system began to appear, U.S. policymakers have responded in three phases. In the first phase, recognizing the risk of the housing downturn, the U.S. government took a number of immediate steps, including implementing a $150 billion stimulus package and launching a number of other initiatives to help mitigate the impact on the real economy and help preserve home ownership.

In the second phase – as instability in the financial services sector grew – we acted on a case-by-case basis, as, for example, when the Federal Reserve facilitated the sale of Bear Stearns. These moves were intended to address the systemic risk to the financial system that would have resulted from a sudden collapse of these firms. Fannie Mae and Freddie Mac were placed in conservatorship, or government control, so the regulator could put in place business changes to restore the capital of the enterprises and Treasury could provide a firm commitment to protect agency debt holders. In each of these cases, policymakers attempted to strike a careful balance between promoting market discipline and mitigating systemic risk, holding investors and management teams accountable and protecting consumers from collateral damage.

Despite the hardening of the government's support for Fannie Mae and Freddie Mac and the decisive resolutions of destabilizing situations ranging from American International Group (AIG) to Wachovia, investors became increasingly concerned over the possibility of other failing financial institutions. This resulted in a freezing of credit markets and an unwillingness of investors around the world to assume counterparty risk. Given this fragile environment, U.S. authorities moved to a third phase of action, taking decisive and comprehensive steps to stabilize the markets and address the underlying sources of uncertainty. Our actions in early October sought to achieve several goals:

First, authorities in the United States and abroad took steps to improve liquidity. The Federal Reserve launched a Commercial Paper Funding Facility to further increase access to funding for businesses in all sectors of our economy, followed by a Money Market Investor Funding Facility to improve money market liquidity by allowing funds to pledge assets for liquidity. To address U.S. dollar liquidity shortages, the Federal Reserve created swap lines with European central banks and later – as the effects of the crisis spread to other parts of the world – lines with Singapore, New Zealand, Korea, Mexico, and Brazil.

Second, with the support of Treasury and the Federal Reserve, the Federal Deposit Insurance Company (FDIC) launched a program to guarantee newly issued senior debt of participating FDIC-insured institutions for up to three years, as well as deposits in non-interest bearing deposit transaction accounts. These actions are specifically designed to unlock interbank lending by mitigating counterparty risk and have provided confidence to the banking system and averted destabilizing capital flows between banks in the United States.

Finally, and perhaps most important, Treasury is providing much-needed capital to address one of the root causes of the current stress in our financial system – the ongoing housing correction and the consequent buildup of illiquid mortgage-related assets. These troubled assets remain frozen on the balance sheets of banks and other financial institutions, eating away at their capital and constraining the flow of new lending.

Under its new Congressional authority, Treasury has carefully designed a capital injection plan through which nine major financial institutions, comprising more than 50 percent of U.S. deposits and assets, received a combined $125 billion of capital in return for granting the U.S. government minority stakes. An additional $125 billion is available under the same terms to other banks approved by their regulators. This program is a critical step to restoring confidence and liquidity, as we continue to explore ways to best leverage additional TARP resources.

Together, these actions demonstrate that the United States is committed to doing whatever is necessary to unlock our credit markets, minimize the impact of the current instability on the U.S. economy, and restore the health of the global financial system. Much of this action is being coordinated internationally, as the steps taken in the United States are consistent with the efforts undertaken by others around the world to provide liquidity, strengthen financial institutions, protect savers, enforce investor protections, and prevent bank failures that pose systemic risk.

We see signs of progress. Short term funding spreads have tightened, and funding maturities are extending. Money markets and the commercial paper market are showing signs of improvement, and credit default swaps for many financial institutions have narrowed dramatically. Yet, significant challenges remain. Risk spreads remain high, and lending standards have grown more restrictive. The U.S. and the global economies are slowing rapidly with every indication that coming quarters in the U.S., Europe, and many emerging markets will be weaker.

## Themes for the Global Economy

The Leaders' Summit in Washington this weekend will provide an unprecedented opportunity for leaders of developed and emerging economies to discuss the state of the global economy and set forth the outline of a roadmap for reform. The G-20, established in the wake of the Asian Financial Crisis, offers an established channel for this international dialogue. Leaders will discuss the responses to the global crisis that we have seen to date, agree on principles to guide reform efforts, and identify specific actions that can be taken immediately to reform the international financial system. We expect this to be the first in a series of leaders meetings to be conducted in close consultation with other countries, financial centers, and international bodies.

While the Summit will focus on a wide-range of near term and longer term challenges, I'd like to reflect on several themes I suspect will not only frame discussions this weekend, but also the choices policymakers will face in the months and years ahead. To begin, one maxim should shape our policy choices: We are one global economy, and in many ways we must act more like it. The myth of decoupling, at least in its most simplistic formulation, has been debunked. What happens in the United States and Europe affects the rest of the world, and what happens in the emerging markets is critical to developed countries and overall global growth. This acknowledgement brings both an opportunity and a challenge for policymakers as we consider reforms of the international financial system.

Sound Macroeconomic Policy

Policymakers have for years long lamented the buildup of global current account imbalances but their implications have now become clear. The past five years has in many ways been a Goldilocks period for the global economy, with rapid growth, low inflation, and the near-absence of financial crises. But it depended heavily – too heavily, in fact – on U.S. spending growth, rising current account surpluses in many regions, and a growing U.S. current account deficit. The rapid growth of U.S. spending made up for expenditure shortfalls in the rest of the world. Growing saving-investment gaps, which resulted in current account surpluses, opened up in much of Asia as investment rates fell short of pre-Asian crisis levels, allowing for a rapid rise in household savings. The efforts of policymakers to resist currency appreciation and maintain export competitiveness led to large reserve buildups. These reserves, along with those accumulated from Gulf countries, flowed back into U.S. financial markets, fueling investment in housing and spurring financial innovation to increase yields.

As a result of the turmoil, U.S. saving rates have already begun to increase, and emerging markets are taking steps to boost domestic demand. Together these factors will significantly narrow global imbalances. But the key challenge policymakers will face as the world economy recovers is how to prevent the re-emergence of imbalances that threaten the sustainability of global growth.

For China, achieving better balance means strengthening the social safety net, providing a greater array of financial services to households, and increasing dividend payments by state-owned enterprises – all topics we have worked on in the US-China Strategic Economic Dialogue, a Cabinet-level forum to develop strategies to reach shared long-term objectives while managing short-term challenges in our economic relationship.

For Japan and many parts of Europe, it means regulatory reform to increase competition, spur entrepreneurial activity and investment to bring about stronger domestic-demand based growth. For the United States, it means measures to boost domestic saving and reduce the government deficit. In addition to these domestic policy actions, international steps to assure exchange rate flexibility play a critical role in allowing price changes – and not significant slowdowns in growth – to bring about needed current account adjustments.

Regulatory Reform

A second area of focus is regulatory reform. One of the lessons from the global financial market crisis was that policymakers, regulators, and supervisors, along with market participants, did not fully appreciate the risks that built up over the last few years in the search for yield and product innovation. We have discovered the hard way, for example, that there was a significant breakdown in our underwriting standards for sub-prime mortgages, weaknesses in market discipline and risk management practices in our financial institutions, and complex, opaque instruments that were poorly understood by the market.

Over the past year, we have had an intense effort to address the shortcomings in our national and international regulatory frameworks. In the United States, the President's Working Group on Financial Markets – or PWG – released a policy statement in March that outlined an ambitious reform agenda. Internationally, we coordinated our efforts closely with the Financial Stability Forum, or FSF. Both the PWG and the FSF issued recommendations that called for stronger risk management and prudential oversight, greater transparency and disclosure, and improved market infrastructure.

We've made tremendous progress in the last eights months to implement these recommendations, but more work must be done. For example, firms operating in different countries are burdened by varied accounting and auditing standards. Deposit insurance schemes are not consistent across countries. Differing policies in some countries can have spillover effects, resulting in opportunities for regulatory arbitrage. While financial markets are global, financial market regulation is largely national. Therefore, it is critical that nations around the world work to converge our standards, when appropriate, and step up our international cooperation wherever possible. Establishing multilateral supervisory groups for all the major financial institutions is a good step towards greater cooperation.

Regulatory Structures

We can also foster international cooperation by making it easier and more efficient for countries to interact across national regulatory regimes. My international counterparts often remark to me that they find our system extraordinarily complex with its seven federal and over 100 state regulators in the banking, securities, and insurance sectors. Recognizing the importance of having a financial regulatory structure that would be more appropriate for modern financial markets, Secretary Paulson released in March a Blueprint for a Modernized Financial Regulatory Structure. The Blueprint proposed an optimal financial regulatory model that links the regulatory structure to the reasons why we regulate. It proposed three regulators: a market stability regulator; a prudential regulator; and a regulator focused on protecting consumers and investors. Although Treasury began working on the Blueprint a year ago, current market conditions have provided a pertinent backdrop for this study's release and highlighted the need to examine and reform the U.S. regulatory structure.

Other countries, such as the UK, Germany, and France, are also re-examining their structures in light of the lessons learned from the current crisis, and some in the private sector have advocated closer collaboration among national market stability regulators. As the crisis passes, policymakers will quickly need to turn their attention to this issue.

International Financial Institution Reform

Finally, our international institutions will also need to adapt their governance structures to represent the shifting weight of the dynamic emerging market economies and their missions to the changing needs of borrowing members at different stages of development. In particular, the IFIs need to accelerate their governance reforms as they relate to representation of countries at their executive boards and their voting power. The IMF quota reform agreement reached this year and the proposed voice and vote reform package at the World Bank are promising first steps, but to be meaningful must be furthered by continued voice and board reforms in both institutions.

The IFIs also need to consider new tools and priorities for addressing the modern day challenges of economic development and financial stability. The World Bank's efforts to develop a climate change framework and establish mechanisms to address food and energy needs, for example, and the recently launched IMF facility to address liquidity shortages are excellent steps in this direction. However, these innovations need to be balanced with the recognition that these institutions will best serve their members when they engage according to their comparative advantages. Therefore, they must carefully align their activities with one another and other donors. This will ensure that assistance is effectively targeted, used more efficiently, and that countries receive what they actually need, not what the donors wish to give them.

## Conclusion

At this time of unprecedented change, we should approach the notion of proposing definitive policy priorities for the future with humility and caution. As I have tried to faithfully describe today, we have a challenging and difficult journey of reform ahead of us. While the final contours of the path are far from clear, some important milestones are beginning to come into focus. With this weeks Leaders' meeting, we take an important first step down the path of reform. I am optimistic that we are headed in the right direction.

## Treasury Releases Capital Purchase Program Term Sheet for Privately Held Financial Institutions

11/17/2008

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hp1277

**Washington- The U.S. Treasury Department today released the term sheet and answers to frequently asked questions for certain privately-held financial institutions applying for the Capital Purchase Program.**

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**-30-**

**REPORTS**

- Term Sheet- Privately Held Institutions
- FAQ- Privately Held Institutions

**TARP Capital Purchase Program**
**(Non-Public QFIs, excluding S Corps and Mutual Organizations)**

**Preferred Securities**

**Summary of Preferred Terms**

| | |
|---|---|
| **Issuer:** | Qualifying Financial Institution ("QFI") means any (i) top-tier Bank Holding Company ("BHC"), or top-tier Savings and Loan Holding Company ("SLHC") that engages solely or predominately in activities permissible for financial holding companies under relevant law, that in either case is not publicly traded[1], (ii) U.S. bank or U.S. savings association organized in a stock form that are neither publicly traded nor controlled by a BHC or SLHC, or (iii) U.S. bank or U.S. savings association that is not publicly traded and is controlled by a SLHC that is not publicly traded and does not engage solely or predominately in activities that are permitted for financial holding companies under relevant law, other than S Corporations and Mutual Depository Institutions. The term QFI shall not mean any institution that is controlled by a foreign bank or company. For purposes of this program, "U.S. bank", "U.S. savings association", "BHC" and "SLHC" means a bank, savings association, BHC or SLHC organized under the laws of the United States or any State of the United States, the District of Columbia, any territory or possession of the United States, Puerto Rico, Northern Mariana Islands, Guam, American Samoa, or the Virgin Islands. **The United States Department of the Treasury will determine the eligibility and allocation for QFIs after consultation with the appropriate Federal banking agency.**<br><br>"S Corporation" means any U.S. bank, U.S. savings association, BHC or SLHC organized as a corporation that has made a valid election to be taxed under Subchapter S of the U.S. Internal Revenue Code.<br><br>"Mutual Depository Institution" means any U.S. bank, U.S. savings association, BHC or SLHC organized in a mutual form. |
| **Initial Holder:** | United States Department of the Treasury (the "UST"). |

[1] For the purposes of this term sheet "publicly traded" means a company (1) whose securities are traded on a national securities exchange and (2) required to file, under the federal securities laws, periodic reports such as the annual (Form 10-K) and quarterly (Form 10-Q) reports with either the Securities and Exchange Commission or its primary federal bank regulator. A company may be required to do so by virtue of having securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which applies to all companies that are traded on an exchange or that have $10 million in assets and 500 shareholders of record or Section 15(d) of the Exchange Act which requires companies that have filed a registration statement under the Securities Act of 1933, as amended, and have 300 or more securityholders of record of the registered class to file reports required under Section 13 of the Exchange Act, e.g., periodic reports.

| | |
|---|---|
| **Size:** | QFIs may sell preferred to the UST subject to the limits and terms described below.<br><br>Each QFI may issue an amount of Preferred equal to not less than 1% of its risk-weighted assets and not more than the lesser of (i) $25 billion and (ii) 3% of its risk-weighted assets. |
| **Security:** | Preferred, liquidation preference $1,000 per share. (Depending upon the QFI's available authorized preferred shares, the UST may agree to purchase Preferred with a higher liquidation preference per share, in which case the UST may require the QFI to appoint a depositary to hold the Preferred and issue depositary receipts.) |
| **Ranking:** | Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to any existing preferred shares. |
| **Regulatory Capital Status:** | Tier 1. |
| **Term:** | Perpetual life. |
| **Dividend:** | The Preferred will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of this investment and thereafter at a rate of 9% per annum. For Preferred issued by banks which are not subsidiaries of holding companies, the Preferred will pay non-cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of this investment and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. |
| **Redemption:** | Preferred may not be redeemed for a period of three years from the date of this investment, except with the proceeds from a Qualified Equity Offering (as defined below), which results in aggregate gross proceeds to the QFI of not less than 25% of the issue price of the Preferred. After the third anniversary of the date of this investment, the Preferred may be redeemed, in whole or in part, at any time and from time to time, at the option of the QFI. All redemptions of the Preferred shall be at 100% of its issue price, plus (i) in the case of cumulative Preferred, any accrued and unpaid dividends and (ii) in the case of non-cumulative Preferred, accrued and unpaid dividends for the then current dividend period (regardless of whether any dividends are actually declared for such dividend period). All redemptions shall be subject to the approval of the QFI's primary federal bank regulator.<br><br>"Qualified Equity Offering" shall mean the sale by the QFI after the date of this investment of Tier 1 qualifying perpetual preferred stock or common stock for cash (other than any sales made pursuant to agreements |

or arrangements entered into, or pursuant to financing plans which were publicly announced, on or prior to November 17, 2008).

**Restrictions on Dividends:** Subject to certain exceptions, for as long as any Preferred is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Preferred, or common shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Preferred), nor may the QFI repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Preferred or common shares, unless (i) in the case of cumulative Preferred all accrued and unpaid dividends for all past dividend periods on the Preferred are fully paid or (ii) in the case of non-cumulative Preferred the full dividend for the latest completed dividend period has been declared and paid in full.

**Common dividends:** The UST's consent shall be required for any increase in common dividends per share until the third anniversary of the date of this investment. After the third anniversary and prior to the tenth anniversary, the UST's consent shall be required for any increase in aggregate common dividends per share greater than 3% per annum; provided that no increase in common dividends may be made as a result of any dividend paid in common shares, any stock split or similar transaction. The restrictions in this paragraph no longer apply if the Preferred and Warrant Preferred are redeemed in whole or the UST has transferred all of the Preferred and Warrant Preferred to third parties.

**Repurchases:** The UST's consent shall be required for any repurchases of equity securities or trust preferred securities (other than (i) repurchases of the Preferred and (ii) repurchases of junior preferred shares or common shares in connection with any benefit plan in the ordinary course of business consistent with past practice) until the tenth anniversary of the date of this investment unless prior to such tenth anniversary the Preferred and the Warrant Preferred are redeemed in whole or the UST has transferred all of the Preferred and the Warrant Preferred to third parties. In addition, there shall be no share repurchases of junior preferred shares, preferred shares ranking pari passu with the Preferred, or common shares if prohibited as described above under "Restrictions on Dividends".

**Other Dividend and Repurchase Restrictions:** From and after the tenth anniversary of the date of this investment, the QFI shall be prohibited from paying common dividends or repurchasing any equity securities or trust preferred securities until all equity securities held by the UST are redeemed in whole or the UST has transferred all of such equity securities to third parties.

**Voting rights:** The Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Preferred, (ii) any amendment to the rights of Preferred, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Preferred.

If dividends on the Preferred are not paid in full for six dividend periods, whether or not consecutive, the Preferred will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for (i) all prior dividend periods in the case of cumulative Preferred or (ii) four consecutive dividend periods in the case of non-cumulative Preferred.

**Transferability:** The Preferred will not be subject to any contractual restrictions on transfer or the restrictions of any stockholders' agreement or similar arrangement that may be in effect among the QFI and its stockholders at the time of the Preferred investment or thereafter; provided that the UST and its transferees shall not effect any transfer of the Preferred which would require the QFI to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act. If the QFI otherwise becomes subject to such reporting requirements, the QFI will file a shelf registration statement covering the Preferred as promptly as practicable and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible. In addition, the UST and its transferees shall have piggyback registration rights for the Preferred. Subject to the above, the QFI shall take all steps as may be reasonably requested to facilitate the transfer of the Preferred.

**Executive Compensation:** As a condition to the closing of this investment, the QFI and its senior executive officers covered by the EESA shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with, and following the closing and for so long as UST holds any equity or debt securities of the QFI, the QFI shall agree to be bound by, the executive compensation and corporate governance requirements of Section 111 of the EESA and any guidance or regulations issued by the Secretary of the Treasury on or prior to the date of this investment to carry out the provisions of such subsection. As an additional condition to closing, the QFI and its senior executive officers covered by the EESA shall grant to the UST a waiver releasing the UST from any claims that the QFI and such senior executive officers may otherwise have as a result of the issuance of any regulations which modify the terms of benefits plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and any guidance or regulations issued by the Secretary of the Treasury on or prior to the date of this investment to carry out the provisions of such subsection.

**Related Party Transactions:**

For as long as the UST holds any equity securities of the QFI, the QFI and its subsidiaries will not enter into transactions with related persons (within the meaning of Item 404 under the SEC's Regulation S-K) unless (i) such transactions are on terms no less favorable to the QFI and its subsidiaries than could be obtained from an unaffiliated third party, and (ii) have been approved by the audit committee or comparable body of independent directors of the QFI.

## Summary of Warrant Terms

| | |
|---|---|
| **Warrant:** | The UST will receive warrants to purchase, upon net settlement, a number of net shares of preferred stock of the QFI (the "Warrant Preferred") having an aggregate liquidation preference equal to 5% of the Preferred amount on the date of investment. The initial exercise price for the warrants shall be $0.01 per share or such greater amount as the charter may require as the par value per share of Warrant Preferred. The UST intends to immediately exercise the warrants. |
| **Term:** | 10 years |
| **Exercisability:** | Immediately exercisable, in whole or in part. |
| **Warrant Preferred:** | The Warrant Preferred shall have the same rights, preferences, privileges, voting rights and other terms as the Preferred, except that (1) the Warrant Preferred will pay dividends at a rate of 9% per annum and (2) the Warrant Preferred may not be redeemed until all the Preferred has been redeemed. |
| **Transferability:** | The warrants will not be subject to any contractual restrictions on transfer or the restrictions of any stockholders' agreement or similar arrangement that may be in effect among the QFI and its stockholders at the time of this investment or thereafter; provided that the UST shall not effect any transfer of the warrants or underlying Warrant Preferred which would require the QFI to become subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act.<br><br>If the QFI otherwise becomes subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, the QFI will file a shelf registration statement covering the warrants and the Warrant Preferred underlying the warrants as promptly as practicable and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible. In addition, the UST and its transferees shall have piggyback registration rights for the warrants and the Warrant Preferred underlying the warrants. Subject to the above, the QFI shall take all steps as may be reasonably requested to facilitate the transfer of the warrants or the Warrant Preferred. |

## Private Bank Program Q&A

**Q. What is the deadline for applying for the private CPP program?**

Applications must be filed by December 8, 2008.

**Q. How do I apply?**

Applicants should complete the application and follow the procedures that can be found on the applicable federal banking agency website or on the Treasury website at http://www.treasury.gov/initiatives/eesa/application-documents.shtml.

Q. **What if an institution has a bank or thrift holding company application pending with a federal banking regulator?**

Institutions that have filed a bank or thrift holding company application on or before December 8, 2008 may apply to the TARP program through their federal banking regulator on a conditional basis by the applicable deadline. In order to qualify for the TARP program, the applicant company must apply for approval to become a bank or thrift holding company through ownership of an U.S. bank or savings association that was in existence on or before December 8, 2008. Final approval of the holding company application must be granted by the applicable federal banking agency by January 15, 2009. Funding will not be provided prior to consummation of the transaction for which bank or thrift holding company status was necessary. Any bank and thrift holding company, which received funding under TARP, must maintain its status as a bank or thrift holding company for as long as Treasury holds preferred stock and/or warrants in the company. A bank or thrift holding company seeking to terminate its status as such must fully redeem all preferred stock and warrants held by Treasury prior to terminating its status.

**Q. Will you require the issuance of Warrant Preferred from all QFIs participating in the Capital Purchase Program?**

Treasury has discretion to exempt certain investments from the warrant requirements (Sec. 113(d) (3) of the Emergency Economic Stabilization Act of 2008). We are using this discretion conservatively because of our interest in providing a return for the taxpayer in making these investments. For this reason, we have determined not to require a warrant to purchase additional preferred stock for a limited class of qualifying institutions. If a QFI meets the following requirements, then the UST will not require the issuance of the Warrant Preferred shares: the size of the investment must be $50 million or less and the QFI must be a certified Community Development Financial Institution (CDFI). QFIs must file an application for certification as a CDFI by December 8, 2008. If a QFI has applied for CDFI certification, and it is eligible for funding under the CPP program, it will receive conditional approval, which will be contingent on the QFI receiving the CDFI certification. The CDFI certification must be approved by January 15, 2009.

Q. **What is a CDFI and where can I get additional information about them?**

A CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investments to small start-up or expanding businesses in low-income areas.

Q. **How do I get information about becoming a CDFI?**

Additional information about becoming a CDFI can be found at http://www.cdfifund.gov/

**Q. Must I currently be a CDFI to qualify for the exemption from the Warrant Preferred?**

In order to qualify for the exemption, you must have a completed application to be a CDFI at the time your application is filed with the CPP. In order to qualify for the exemption, your CDFI application must be approved at the time of the closing of the investment. The CDFI Fund has pledged that it will streamline the certification process to 30 days in order to qualify for this exemption.

**Q. Does this term sheet and deadline apply to S-Corporations and mutual organizations?**

No. These structures are still under consideration. The deadline for this program will not apply to programs for S-Corporations and mutuals.

## Treasury International Capital (TIC) Data for September

11/18/2008

***FROM THE OFFICE OF PUBLIC AFFAIRS***

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HP-1278

Treasury International Capital (TIC) data for September 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 October, is scheduled for December 15, 2008.

Net foreign purchases of long-term securities were $66.2 billion.

- Net foreign purchases of long-term U.S. securities were $30.9 billion. Of this, net purchases by private foreign investors were $35.7 billion, and net purchases by foreign official institutions were negative $4.8 billion.

- U.S. residents sold a net $35.4 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $52.7 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $11.6 billion. Foreign holdings of Treasury bills increased $89.9 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $79.1 billion.

Monthly net TIC flows were $143.4 billion. Of this, net foreign private flows were $126.9 billion, and net foreign official flows were $16.4 billion.

-30-

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

| | | | | 12 Months Through | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2006 | 2007 | Sep-07 | Sep-08 | Jun-08 | Jul-08 | Aug-08 | Sep-0 |
| | Foreigners' Acquisitions of Long-term Securities | | | | | | | | |
| 1 | Gross Purchases of Domestic U.S. Securities | 21077.1 | 29730.6 | 27463.7 | 33067.9 | 2794.1 | 2819.5 | 2163.9 | 308 |
| 2 | Gross Sales of Domestic U.S. Securities | 19933.9 | 28714.7 | 26429.8 | 32276.2 | 2731.4 | 2835.2 | 2165.5 | 305 |
| 3 | Domestic Securities Purchased, net (line 1 less line 2) /1 | 1143.2 | 1015.9 | 1033.9 | 791.7 | 62.7 | -15.7 | -1.6 | 3 |
| 4 | Private, net /2 | 946.6 | 828.2 | 860.2 | 561.7 | 47.8 | -10.9 | 8.7 | 3 |
| 5 | Treasury Bonds & Notes, net | 125.9 | 197.9 | 178.7 | 269.9 | 27.2 | 24.2 | 29.9 | 1 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 5 | Gov't Agency Bonds, net | 193.8 | 107.0 | 121.5 | 102.1 | 22.3 | -23.9 | -9.0 | 1 |
| 7 | Corporate Bonds, net | 482.2 | 342.8 | 409.0 | 116.8 | 0.6 | -4.3 | -12.6 | - |
| 3 | Equities, net | 144.6 | 180.4 | 150.9 | 72.9 | -2.3 | -6.8 | 0.4 | 1 |
| 9 | Official, net /3 | 196.6 | 187.7 | 173.7 | 230.0 | 14.9 | -4.9 | -10.2 | - |
| ) | Treasury Bonds & Notes, net | 69.6 | 3.0 | 13.2 | 115.4 | 1.1 | 10.1 | 4.8 | |
| 1 | Gov't Agency Bonds, net | 92.6 | 119.1 | 123.6 | 29.9 | 9.1 | -16.2 | -13.1 | - |
| 2 | Corporate Bonds, net | 28.6 | 50.6 | 38.1 | 52.2 | 4.1 | 0.2 | -0.5 | - |
| 3 | Equities, net | 5.8 | 15.1 | -1.2 | 32.6 | 0.5 | 1.1 | -1.4 | |
| 4 | Gross Purchases of Foreign Securities from U.S. Residents | 5515.9 | 8187.6 | 7581.0 | 8428.6 | 688.3 | 719.4 | 585.5 | 71 |
| 5 | Gross Sales of Foreign Securities to U.S. Residents | 5766.8 | 8411.9 | 7909.2 | 8388.6 | 698.2 | 685.2 | 562.9 | 67 |
| 5 | Foreign Securities Purchased, net (line 14 less line 15) /4 | -250.9 | -224.3 | -328.2 | 40.0 | -10.0 | 34.2 | 22.5 | 3 |
| 7 | Foreign Bonds Purchased, net | -144.5 | -129.0 | -169.2 | 48.4 | -11.5 | 17.3 | 19.7 | 3 |
| 3 | Foreign Equities Purchased, net | -106.5 | -95.3 | -159.0 | -8.4 | 1.6 | 16.9 | 2.9 | - |
| 9 | Net Long-Term Securities Transactions (line 3 plus line 16): | 892.3 | 791.6 | 705.7 | 831.652.7 | 18.4 | 21.0 | | 66.2 |
| ) | Other Acquisitions of Long-term Securities, net /5 | -174.6 | -235.1 | -238.3 | -210.1-18.8 | -14.5 | -12.9 | | -13.5 |
| 1 | Net Foreign Acquisition of Long-Term Securities (lines 19 and 20) : | 717.7 | 556.5 | 467.4 | 621.533.9 | 3.9 | 8.1 | | 52.7 |
| 2 | Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6 | 146.2 | 198.6 | 126.5 | 191.1-30.6 | 15.8 | 22.1 | | 11.6 |
| 3 | U.S. Treasury Bills | -9.0 | 49.2 | 17.7 | 239.96.5 | 4.2 | 30.6 | | 89.9 |
| 4 | Private, net | 16.1 | 29.7 | 18.8 | 141.4 | -0.2 | -1.6 | 17.5 | 5 |
| 5 | Official, net | -25.0 | 19.5 | -1.1 | 98.5 | 6.6 | 5.8 | 13.1 | 3 |
| 5 | Other Negotiable Instruments and Selected Other Liabilities: /7 | 155.1 | 149.4 | 108.9 | -48.8-37.1 | | 11.5 | -8.5-78.3 | |
| 7 | Private, net | 174.9 | 73.2 | 77.8 | -47.8 | -39.1 | 5.1 | -0.4 | -7 |
| 3 | Official, net | -19.8 | 76.1 | 31.1 | -1.0 | 2.0 | 6.4 | -8.1 | - |
| 9 | Change in Banks' Own Net Dollar-Denominated Liabilities | 198.0 | -122.9 | -60.6 | -320.1 | 10.1-44.8 | -8.8 | | 79.1 |
| ) | Monthly Net TIC Flows (lines 21,22,29) /8 | 1061.8 | 632.3 | 533.4 | 492.5 | 13.3 | -25.1 | 21.4 | 14 |
| | of which | | | | | | | | |
| 1 | Private, net | 923.0 | 345.2 | 351.5 | 190.8 | 0.3 | -43.4 | 24.1 | 12 |
| 2 | Official, net | 138.9 | 287.1 | 181.9 | 301.7 | 13.0 | 18.3 | -2.7 | 1 |

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

Includes international and regional organizations

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.

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.

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.

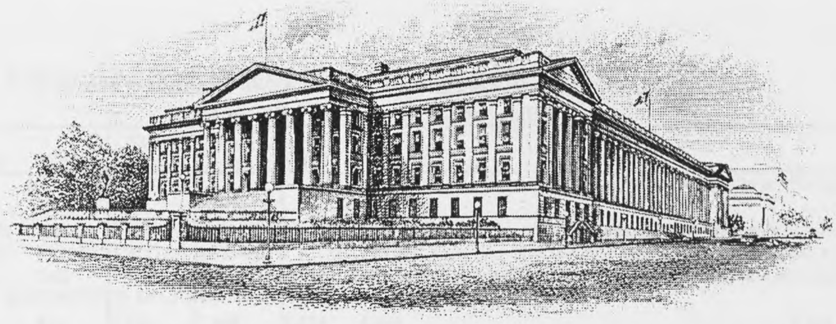
These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims are collected quarterly and published in the Treasury Bulletin and the TIC website.

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

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.

**REPORTS**

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



# DEPARTMENT OF THE TREASURY
## OFFICE OF PUBLIC AFFAIRS

**November 18, 2008** | **Contact: Rob Saliterman**
**EMBARGOED UNTIL 9:00 AM** | **(202) 622-2960**

### TREASURY INTERNATIONAL CAPITAL DATA FOR SEPTEMBER

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(Billions of dollars, not seasonally adjusted)

| | | | | 12 Months Through | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2006 | 2007 | Sep-07 | Sep-08 | Jun-08 | Jul-08 | Aug-08 | Sep-08 |
| | **Foreigners' Acquisitions of Long-term Securities** | | | | | | | | |
| 1 | Gross Purchases of Domestic U.S. Securities | 21077.1 | 29730.6 | 27463.7 | 33067.9 | 2794.1 | 2819.5 | 2163.9 | 3082.2 |
| 2 | Gross Sales of Domestic U.S. Securities | 19933.9 | 28714.7 | 26429.8 | 32276.2 | 2731.4 | 2835.2 | 2165.5 | 3051.4 |
| 3 | **Domestic Securities Purchased, net** (line 1 less line 2) /1 | **1143.2** | **1015.9** | **1033.9** | **791.7** | **62.7** | **-15.7** | **-1.6** | **30.9** |
| 4 | **Private, net /2** | **946.6** | **828.2** | **860.2** | **561.7** | **47.8** | **-10.9** | **8.7** | **35.7** |
| 5 | Treasury Bonds & Notes, net | 125.9 | 197.9 | 178.7 | 269.9 | 27.2 | 24.2 | 29.9 | 15.8 |
| 6 | Gov't Agency Bonds, net | 193.8 | 107.0 | 121.5 | 102.1 | 22.3 | -23.9 | -9.0 | 14.8 |
| 7 | Corporate Bonds, net | 482.2 | 342.8 | 409.0 | 116.8 | 0.6 | -4.3 | -12.6 | -6.4 |
| 8 | Equities, net | 144.6 | 180.4 | 150.9 | 72.9 | -2.3 | -6.8 | 0.4 | 11.5 |
| 9 | **Official, net /3** | **196.6** | **187.7** | **173.7** | **230.0** | **14.9** | **-4.9** | **-10.2** | **-4.8** |
| 10 | Treasury Bonds & Notes, net | 69.6 | 3.0 | 13.2 | 115.4 | 1.1 | 10.1 | 4.8 | 4.9 |
| 11 | Gov't Agency Bonds, net | 92.6 | 119.1 | 123.6 | 29.9 | 9.1 | -16.2 | -13.1 | -8.7 |
| 12 | Corporate Bonds, net | 28.6 | 50.6 | 38.1 | 52.2 | 4.1 | 0.2 | -0.5 | -1.2 |
| 13 | Equities, net | 5.8 | 15.1 | -1.2 | 32.6 | 0.5 | 1.1 | -1.4 | 0.0 |
| 14 | Gross Purchases of Foreign Securities from U.S. Residents | 5515.9 | 8187.6 | 7581.0 | 8428.6 | 688.3 | 719.4 | 585.5 | 710.0 |
| 15 | Gross Sales of Foreign Securities to U.S. Residents | 5766.8 | 8411.9 | 7909.2 | 8388.6 | 698.2 | 685.2 | 562.9 | 674.6 |
| 16 | **Foreign Securities Purchased, net** (line 14 less line 15) /4 | **-250.9** | **-224.3** | **-328.2** | **40.0** | **-10.0** | **34.2** | **22.5** | **35.4** |
| 17 | Foreign Bonds Purchased, net | -144.5 | -129.0 | -169.2 | 48.4 | -11.5 | 17.3 | 19.7 | 37.8 |
| 18 | Foreign Equities Purchased, net | -106.5 | -95.3 | -159.0 | -8.4 | 1.6 | 16.9 | 2.9 | -2.4 |
| 19 | **Net Long-Term Securities Transactions** (line 3 plus line 16): | **892.3** | **791.6** | **705.7** | **831.6** | **52.7** | **18.4** | **21.0** | **66.2** |
| 20 | **Other Acquisitions of Long-term Securities, net /5** | **-174.6** | **-235.1** | **-238.3** | **-210.1** | **-18.8** | **-14.5** | **-12.9** | **-13.5** |
| 21 | **Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20): | **717.7** | **556.5** | **467.4** | **621.5** | **33.9** | **3.9** | **8.1** | **52.7** |
| 22 | **Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6** | **146.2** | **198.6** | **126.5** | **191.1** | **-30.6** | **15.8** | **22.1** | **11.6** |
| 23 | **U.S. Treasury Bills** | **-9.0** | **49.2** | **17.7** | **239.9** | **6.5** | **4.2** | **30.6** | **89.9** |
| 24 | Private, net | 16.1 | 29.7 | 18.8 | 141.4 | -0.2 | -1.6 | 17.5 | 58.7 |
| 25 | Official, net | -25.0 | 19.5 | -1.1 | 98.5 | 6.6 | 5.8 | 13.1 | 31.2 |
| 26 | **Other Negotiable Instruments and Selected Other Liabilities: /7** | **155.1** | **149.4** | **108.9** | **-48.8** | **-37.1** | **11.5** | **-8.5** | **-78.3** |
| 27 | Private, net | 174.9 | 73.2 | 77.8 | -47.8 | -39.1 | 5.1 | -0.4 | -70.0 |
| 28 | Official, net | -19.8 | 76.1 | 31.1 | -1.0 | 2.0 | 6.4 | -8.1 | -8.4 |
| 29 | **Change in Banks' Own Net Dollar-Denominated Liabilities** | **198.0** | **-122.9** | **-60.6** | **-320.1** | **10.1** | **-44.8** | **-8.8** | **79.1** |
| 30 | **Monthly Net TIC Flows** (lines 21,22,29) /8 | **1061.8** | **632.3** | **533.4** | **492.5** | **13.3** | **-25.1** | **21.4** | **143.4** |
| | **of which** | | | | | | | | |
| 31 | Private, net | 923.0 | 345.2 | 351.5 | 190.8 | 0.3 | -43.4 | 24.1 | 126.9 |
| 32 | Official, net | 138.9 | 287.1 | 181.9 | 301.7 | 13.0 | 18.3 | -2.7 | 16.4 |

/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.

## Testimony by Treasury Secretary Henry M. Paulson, Jr.

11/18/2008

HP-1279

***Before the House Committee on Financial Services***

**Washington, DC**-- Good morning and thank you for the opportunity to testify this morning on implementation of the Emergency Economic Stabilization Act. I am grateful and everyone in this country should be grateful, for the efforts of Chairman Frank, ranking member Bachus, this committee and other members of Congress toward adoption of the financial rescue legislation, which created critically important authorities and financial capacity to stabilize our financial system. Before Congress provided these tools, we were facing a financial crisis without the authorities and resources necessary to meet the challenge. At the risk of oversimplification, the financial rescue package is about restoring confidence – restoring the confidence of depositors and investors in our financial institutions, and restoring the confidence that our financial institutions need so that they will get back to normal lending practices.

This law has already allowed us to take decisive action to prevent the collapse of our financial system. But more needs to be done, and it is my responsibility to use the authorities Congress provided to protect and strengthen the financial system, and in so doing, protect the taxpayer.

Let me summarize what the U.S. financial system has had to digest in just a few months' time. We have not in our lifetime dealt with a financial crisis of this severity and unpredictability. We have seen the failures, or the equivalent of failures, of Bear Stearns, IndyMac Bank, Lehman Brothers, Washington Mutual, Wachovia, Fannie Mae, Freddie Mac, and AIG – institutions with a collective $4.7 trillion in assets when this year began. Each of these failures would be tremendously consequential in their own right under normal market conditions – but our economy and our financial system faced them in succession while at the same time the economy was weakening. Other large financial institutions were under significant pressure and market participants around the world were speculating about which institution would be next to fall.

And as you well recall, in September, after 13 months of market stress, the financial system essentially seized up and we had a system-wide crisis. Our markets were frozen, banks had pulled back very substantially from interbank lending. Confidence in our financial system and a number of our financial institutions had been seriously compromised. That was the background against which Chairman Bernanke and I met with the Congressional bipartisan leadership to explain the need for emergency legislation.

Our objectives in asking Congress for a financial rescue package were to first stabilize a financial system on the verge of collapse, and then to get lending going again to support the American people and businesses. We warned that the frozen credit markets were already severely damaging the U.S. economy and costing jobs. If the financial system were to collapse, it would significantly worsen and prolong the economic downturn that was already underway.

We needed the financial rescue package so we could intervene, stabilize our financial system, and minimize further damage to our economy. The rescue package was not intended to be an economic stimulus or an economic recovery package; it was intended to shore up the foundation of our economy by stabilizing the financial system, and it is unrealistic to expect it to reverse the damage that had already been inflicted by the severity of the crisis.

During the two weeks Congress worked on the legislation, market conditions worsened significantly. Many Americans look at the stock market as an indicator of the economy, and during this period they saw tremendous volatility. The Dow Jones Industrial Average fell more than 700 points on one single day, and over 9 percent during the two weeks the legislation was debated – stock market losses amounted to slightly more than $2 trillion.

But we were focused on the credit markets because they provide our basic economic fuel – borrowing and lending capital – that supports and creates jobs. The confidence in banks and of banks continued to diminish, as did the flow of funds between them. Interbank lending rates relative to policy rates were at the highest level this decade, indicating banks' lack of confidence in one another and in the financial system.

And the problems extended well beyond the banks. Corporate bond spreads continued to increase, as did corporate credit default spreads and overall market volatility. Industrial company access to all aspects of the bond market was dramatically curtailed. For example, blue chip industrial companies were frequently unable to issue commercial paper with maturities greater than a few days as the commercial paper market became severely impaired. We received reports of small and medium-sized companies, with no direct connection to the financial sector, losing access to the normal credit needed to meet payrolls, pay suppliers and buy inventory.

Investor concerns became most evident in the "flight to quality" in the Treasury market, with short-term Treasury bill yields dropping to near zero.

During that same period, the government intervened to protect the financial system. The FDIC acted to mitigate the failure of Washington Mutual by facilitating its sale, and made clear that it would intervene to prevent Wachovia's failure. And turmoil had developed in European markets. In a two-day period at the end of September the governments of Ireland, the UK, Germany, Belgium, France and Iceland intervened to prevent the failure of one or more financial institutions in their countries.

By the time legislation had passed on October 3, the global market crisis was so broad and so severe, we knew we needed to move quickly and take powerful steps to stabilize our financial system and to get credit flowing again. Our initial intent had been to strengthen the banking system by purchasing illiquid mortgages and mortgage-related securities. But by this time, given the severity and magnitude of the situation, an asset purchase program would not be effective enough, quickly enough. Therefore we exercised the authority granted by Congress in this legislation to develop and quickly deploy a $250 billion capital injection program, fully anticipating we would follow that with a program for troubled asset purchases.

There is no playbook for responding to turmoil we have never faced We adjusted our strategy to reflect the facts of a severe market crisis always keeping focused on Congress's goal and our goal – to stabilize the financial system that is integral to the everyday lives of all Americans.

By mid-October, our actions, in combination with the FDIC's guarantee of certain debt issued by financial institutions, helped us to accomplish the first major priority, which was to immediately stabilize the financial system. And, as we worked to hire contractors and prepare our mortgage asset purchase plan for implementation, we continued to assess the economic and market conditions here and around the world.

As we had seen and communicated to Congress and the American people, much damage had already been done to our economy. The economic data since the legislation passed underscored the challenges we were facing: On October 31, third quarter GDP showed negative 0.3 percent growth. Jobs data showed a rise in the unemployment rate to a level not seen in 15 years, and a loss of 240,000 jobs in October alone. Data released on October 28 showed that through August, home prices in 10 major cities had fallen 18 percent over the previous year, demonstrating that the housing correction had not abated.

The slowing of European economies has been even more dramatic, as have the actions taken to rescue failing European banks and nationwide banking systems such as those in Iceland and Hungary.

Throughout this period, we continued to assess how best to use the remaining TARP funds, given the uncertainties around the deteriorating economic situation in the U.S. and globally, and the continuing financial market stresses. We have always said that the housing correction is at the root of the economic downturn and our financial market stress. And as the economy slows further, it threatens to prolong the housing correction, as well as the stress on our financial institutions and financial markets.

We recognized that a troubled asset purchase program, to be effective, would require a massive commitment of TARP funds. It became clear that, while in mid-September, before economic conditions worsened, $700 billion in troubled asset purchases would have had a significant impact. Half of that sum, in a worse economy, simply isn't enough firepower.

If we have learned anything throughout this year we have learned that this financial crisis is unpredictable and difficult to counteract. So early last week, we concluded it was only prudent to reserve our TARP capacity, maintaining not only our flexibility, but that of the next Administration.

We have identified other priorities that I believe the government will need to address through the TARP and other existing authorities. In particular, by investing only a relatively modest share of TARP funds in a Federal Reserve liquidity facility, we can improve securitization in this market and have a significant impact on the availability of consumer credit.

And we need to continue our efforts to use a variety of authorities to reduce avoidable foreclosures. The government has made substantial progress on that front, through HUD programs, through the FDIC's program with IndyMac, through our support and leadership of the HOPE NOW Alliance, and through the new GSE servicer guidelines announced last week that will set a new standard for the entire industry. While I understand the interest in spending TARP resources on other approaches, the efforts already underway will do more to prevent foreclosures than might have been achieved through very large purchases of mortgage-related securities through the TARP.

Although we are not planning to initiate another capital program beyond those already announced, an emphasis on capital seems to us to be the better strategy going forward. In the weeks since enactment of EESA, we have seen that capital purchases are clearly powerful in terms of impact per dollar of investment, which is a major advantage under the current circumstances. More capital enables banks to take losses as they write down or sell troubled assets. And stronger capitalization is also essential to increasing lending which, although difficult to achieve during times like this, is essential to economic recovery.

Our current Capital Purchase Program for banks and thrifts has already dispersed $148 billion, and we are processing many more applications. And yesterday we posted the term sheet for participation for non-publicly traded banks, another important source of credit in our economy. We are developing a matching program for possible future use which could apply to banks and/or non-bank financial institutions.

Recently I've been asked two questions. First, Congress gave you the authorities you requested, and the economy has only gotten worse. What went wrong and why won't you use this authority for other industries? Second, if housing and mortgages are at the root of our economic difficulties, why aren't you addressing this?

The answer to the first is that the purpose of the financial rescue legislation was to stabilize our financial system and to strengthen it. It is not a panacea for all our economic difficulties. The crisis in our financial system had already spilled over into our economy and hurt it. It will take a while to get lending going and repair our financial system, which is essential to an economic recovery. This won't happen as fast as any of us would like, but it will happen much, much faster than it would have had we not used the TARP to stabilize our system. Put differently, if Congress had not given us the authority for TARP and the Capital Purchase Program and our financial system had continued to shut down, our economic situation would be far worse today.

The answer to the second question is that the most important thing we can do to mitigate the housing correction and reduce the number of foreclosures is to increase access to lower cost mortgage lending. The actions we have taken to stabilize and strengthen Fannie Mae and Freddie Mac, and through them to increase the flow of mortgage credit, together with our bank capital program, are powerful actions to promote mortgage lending. We are also working actively to reduce preventable foreclosures.

In summary, I am very proud of the decisive actions by Treasury, the Fed and the FDIC to stabilize our financial system. We have done what was necessary as facts and conditions in the market and economy have changed, adjusting our strategy to most effectively address the urgent crisis and preserving the flexibility of the President-elect and the new Secretary of the Treasury to address the challenges in the economy and capital markets they will face in the coming months.

While difficult challenges lie ahead, the new administration will begin with two significant advantages: a significantly more stable banking system where the failure of a systemically relevant institution is no longer a pressing concern rattling the markets; and the resources, authorities, and potential programs available to deal with the future capital and liquidity needs of credit providers. Deploying these new tools and programs to restore our financial institutions and financial markets is critical to restoring the flow of lending and credit - which will determine, to a large extent, the speed and trajectory of our economic recovery. I am confident in a successful outcome, because our economy is flexible and resilient, rooted in the entrepreneurial spirit and productivity of the American people. And of course, I will focus intensely on the challenges before me and on making this a seamless transition during my remaining nine weeks.

Thank you again for your efforts and for the opportunity to appear today.

## In Case You Missed It: "Fighting the Financial Crisis, One Challenge at a Time"

11/18/2008

HP-1280

By Secretary Henry M. Paulson, Jr.
The New York Times
November 18, 2008

We are going through a financial crisis more severe and unpredictable than any in our lifetimes. We have seen the failures, or the equivalent of failures, of Bear Stearns, IndyMac, Lehman Brothers, Washington Mutual, Wachovia, Fannie Mae, Freddie Mac and the American International Group. Each of these failures would be tremendously consequential in its own right. But we faced them in succession, as our financial system seized up and severely damaged the economy.

By September, the government faced a systemwide crisis. After months of making the most of the authority we already had, we asked Congress for a comprehensive rescue package so we could stabilize our financial system and minimize further damage to our economy.

By the time the legislation had passed on Oct. 3, the global market crisis was so broad and so severe that we needed to move quickly and take powerful steps to stabilize our financial system and to get credit flowing again. Our initial intent was to strengthen the banking system by purchasing illiquid mortgages and mortgage-related securities. But the severity and magnitude of the situation had worsened to such an extent that an asset purchase program would not be effective enough, quickly enough. Therefore, exercising the authority granted by Congress in this legislation, we quickly deployed a $250 billion capital injection program, fully anticipating we would follow that with a program for buying troubled assets.

There is no playbook for responding to turmoil we have never faced. We adjusted our strategy to reflect the facts of a severe market crisis, always keeping focused on our goal: to stabilize a financial system that is integral to the everyday lives of all Americans. By mid-October, our actions, in combination with the Federal Deposit Insurance Corporation's guarantee of certain debt issued by financial institutions, helped us to accomplish the first major priority, which was to immediately stabilize the financial system.

As we assessed how best to use the remaining money for the Troubled Asset Relief Program, we carefully considered the uncertainties around the deteriorating economic situation in the United States and globally. The latest economic reports underscore the challenges we are facing. The gross domestic product for the third quarter (which ended Sept. 30, three days before the bill passed) shrank by 0.3 percent. The unemployment rate rose in October to a level not seen since the mid-1990s. Home prices in 10 major cities have fallen 18 percent over the previous year. Auto sales numbers plummeted in October and were more than a third lower than one year ago. The slowing of European economies has been even more drastic.

I have always said that the decline in the housing market is at the root of the economic downturn and our financial market stress. And the economy, as it slows further, threatens to prolong this decline, as well as the stress on our financial institutions and financial markets.

A troubled-asset purchase program, to be effective, would require a huge commitment of money. In mid-September, before economic conditions worsened, $700 billion in troubled asset purchases would have had a significant impact. But half of that sum, in a worse economy, simply isn't enough firepower.

If we have learned anything throughout this year, we have learned that this financial crisis is unpredictable and difficult to counteract. We decided it was prudent to reserve our TARP money, maintaining not only our flexibility, but also that of the next administration.

The current $250 billion capital purchase program is strong medicine for our financial institutions. More capital enables banks to take losses as they write down or sell troubled assets. And stronger capitalization is essential to increasing lending, which is vital to economic recovery.

Recently I've been asked two questions. First, Congress gave you the authority you requested, and the economy has only become worse. What went wrong? Second, if housing and mortgages are at the root of our economic difficulties, why aren't you addressing those problems?

The answer to the first question is that the purpose of the financial rescue legislation was to stabilize our financial system and to strengthen it. It is not a panacea for all our economic difficulties. The crisis in our financial system had already spilled over into the overall economy. But recovery will happen much, much faster than it would have had we not used TARP to stabilize our system. If Congress had not given us the authority for TARP and the capital purchase program and our financial system had continued to shut down, our economic situation would be far worse today.

The answer to the second question is that more access to lower-cost mortgage lending is the No. 1 thing we can do to slow the decline in the housing market and reduce the number of foreclosures. Together with our bank capital program, the moves we have made to stabilize and strengthen Fannie Mae and Freddie Mac, and through them to increase the flow of mortgage credit, will promote mortgage lending. We are also working with the Department of Housing and Urban Development, the F.D.I.C. and others to reduce preventable foreclosures.

I am very proud of the decisive actions by the Treasury Department, the Federal Reserve and the F.D.I.C. to stabilize our financial system. We have done what was necessary as facts and conditions in the market and economy have changed, adjusting our strategy to most effectively address the crisis. We have preserved the flexibility of President-elect Barack Obama and the new secretary of the Treasury to address the challenges in the economy and capital markets they will face.

As policymakers face the difficult challenges ahead, they will begin with two considerable advantages: a significantly more stable banking system, one where the failure of a major bank is no longer a pressing concern; and the resources, authority and potential programs available to deal with the future capital and liquidity needs of credit providers.

Deploying these new tools and programs to restore our financial institutions, financial markets and the flow of lending and credit will determine, to a large extent, the speed and trajectory of our economic recovery. I am confident of success, because our economy is flexible and resilient, rooted in the entrepreneurial spirit and productivity of the American people.

# Interim Assistant Secretary Neel Kashkari Remarks on Implementation of the Emergency Economic Stabilization Act

11/19/2008

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hp-1281

**Washington-** Good afternoon. Thank you, Faith, for that kind introduction. I have really enjoyed working with you over the past year. You are doing an excellent job leading HOPE NOW, getting servicers who are fierce competitors by day, to work together and with counselors toward the common goal of foreclosure prevention. The organization of Women in Housing and Finance is fortunate to have you as their President-Elect.

It is an honor for me to be here. Rather than give a long, formal speech, I would like to use this unique opportunity to do something a little different. I would like to give you a brief overview of our response to the credit crisis, and then spend most of the time taking your questions and having a thoughtful discussion.

The Treasury, the Federal Reserve and regulators in the U.S. and abroad have taken numerous unprecedented actions since the beginning of the crisis to reduce systemic risk and stabilize financial markets. Throughout the crisis, we have been strongly encouraging financial institutions to raise capital and to recognize losses. We have worked hard to adapt our policies to the rapidly changing circumstances on the ground.

Secretary Paulson and Chairman Bernanke recognized early that there may come a time when the private markets would become unwilling to provide the necessary capital to our financial system to deal with the large expected losses from the housing correction. In such a scenario, only the Federal government would be in a position to support the financial system – to step in to provide the needed capital to prevent collapse. Government intervention was not our first choice, as it often has unintended, far-reaching consequences.

We evaluated numerous alternatives and focused on a program to buy illiquid mortgage assets in very large scale to attract private capital to recapitalize our financial system.

We all hoped it would not come to this, but recognized the possibility and began contingency planning in early 2008.

In late summer, after the failure of Bear Stearns, the crisis intensified and our financial institutions came under even more pressure from deteriorating market conditions and the loss of confidence. In a very short period of time, some of our largest financial institutions failed or changed structure. In July, IndyMac bank failed. In the month of September alone, we witnessed the following: conservatorship of Fannie Mae and Freddie Mac, the sale of Merrill Lynch to Bank of America, the bankruptcy of Lehman Brothers, the rescue of AIG by the Fed, the conversion to bank holding companies by Morgan Stanley and Goldman Sachs, the distressed sale of Wachovia, and the failure of Washington Mutual.

As a result, in September, credit markets effectively froze. The commercial paper market shut down, 3-month Treasuries dipped below zero, and a money market mutual fund "broke the buck" for only the second time in history, precipitating a $200 billion net outflow of funds from that market.

Recognizing the threat to our financial system, Secretary Paulson and Chairman Bernanke knew the time had come and on September 18, they went to the Congress to ask for unprecedented authority to prevent a collapse of our financial system. Congress recognized the threat that frozen credit markets pose to the economy and to every American. Just two weeks later, on October 3, the Congress passed and President Bush signed into law the Emergency Economic Stabilization Act of 2008. We worked hard with the Congress to build tremendous flexibility into the legislation because the one constant throughout the credit crisis has been its unpredictability.

In our discussions with the Congress, we focused on our initial plan to purchase illiquid mortgage assets. In the two weeks between the time we submitted the draft legislation and the time the bill passed, credit markets deteriorated more quickly than we had expected. One key measure we looked at was LIBOR-OIS spread – a measure of perceived credit risk in the financial system. Typically, 5 – 10 basis points, on September 1, the one month spread was 47 basis points. By the 18th, when we first went to Congress, the spread had climbed 88 basis points to 135 basis points. By the time the bill passed, just two week later on October 3, the spread had climbed another 128 basis points to 263 basis points.

It was clear to Secretary Paulson and Chairman Bernanke, we needed to use the authority and flexibility granted under the EESA as aggressively as possible to quickly stabilize the system. We began immediately designing a capital program in addition to our asset purchase programs. We believed that purchasing equity in healthy banks would be the fastest way to inject much-needed capital into the financial system and restore confidence, which would restore the flow of credit. Illiquid asset purchases, which would take longer to implement, would follow.

Meanwhile, credit markets continued to deteriorate. On October 10, LIBOR-OIS spread had risen another 75 basis points to 338 basis points. So, four days later, on October 14, when our Capital Purchase Program was ready, we announced a plan to invest up to $250 billion in banks and savings institutions of all sizes, in combination with a guarantee of senior bank debt by the FDIC. These combined actions were taken to prevent a collapse of the financial system. We believe these actions were successful.

At the same time, we continued working hard on our illiquid asset purchase programs. We were keenly aware that, while $700 billion is a large sum of money, it is a finite amount. We needed to use the available funds to provide the maximum benefit to the system, while leaving enough dry powder to deal with contingencies. Throughout the process, we carefully monitored how the markets were responding to our actions and conditions in the broader economy. We asked ourselves: Would banks apply for the capital? Would credit markets respond? What was happening in the economy?

We were pleased that healthy banks of all sizes were signing up for the capital program and credit markets were showing signs of thawing. But the economic indicators were less positive. On October 31, data on third quarter GDP showed negative 0.3 percent growth. In addition, data released on October 28 showed that through August, home prices in 10 major cities had fallen 18 percent over the previous year.

It became clear we may need additional capital for both banks and non-bank financial institutions. To prevent the collapse of the financial system, we also had to restructure the Federal Reserve's loan to AIG, using $40 billion of TARP funds. With about half the original $700 billion available for asset purchases, would such a program still be the best approach? For an asset purchase program to be effective, it must be done in very large scale.

While we have taken actions to stabilize the banking sector, supporting the non-banking market is also important to helping consumers, businesses and our economy get the credit they need. The consumer securitization market appears to be a promising opportunity. This would help bring down rates of auto loans, credit cards and student loans and could be achieved with a more modest allocation from the TARP. And although we are not currently planning to initiate another capital program beyond those already announced, an emphasis on additional capital seems to us to be an appropriate focus today.

The EESA is not an economic stimulus plan, nor is it an economic growth plan. It was designed to stabilize the financial system. Today, the LIBOR-OIS spread has fallen 238 basis points from its peak to 100 basis points. We believe the combined actions of Treasury, the Federal Reserve and FDIC have stabilized the financial system and prevented a financial collapse. Nonetheless, the current crisis took years to build up and will take time to work through, and we still face some real economic challenges.

We will remain focused on ensuring the stability of the financial system and have begun working with our successors as we transition to the next Administration. With that brief overview, I would be happy to take your questions.

-30-

# Acting Assistant Secretary for Financial Markets Karthik Ramanathan Testimony

11/20/2008

HP-1282

***Before the House Small Business Committee***

**Washington -** Chairwoman Velázquez, Ranking Member Chabot, and Members of the Committee, thank you for this opportunity to testify this morning on the recent financial market and economic conditions, Treasury's actions in implementing the Emergency Economic Stabilization Act (EESA), and how these actions will assist small businesses and entrepreneurs in leading the economic recovery in the United States.

Small businesses are crucial to the health of the U.S. economy – they provide the entrepreneurial talent that keeps the economy flexible and dynamic. Small businesses employ over half the workforce in the United States, and are estimated to generate seventy percent of all new jobs. Given the current economic challenges we are facing, I am pleased to be here to address this timely topic and to emphasize the importance of this sector for the growth of the American economy.

As the Acting Assistant Secretary for Financial Markets, I serve as the senior adviser to the Secretary, Deputy Secretary, and Under Secretary on broad matters related to domestic finance, financial markets, federal, state, and local finance, including the Federal debt, and Federal Government credit policies. My office is also responsible for the issuance of over $5 trillion in annual debt and for overseeing the $10 trillion U.S. Treasury debt portfolio.

As you know, the economy is currently working through a prolonged housing correction that began over two years ago, and has in turn impacted credit markets and financial institutions. The downturn in the housing market as well as financial and credit market pressures have negatively impacted the real economy. Small businesses and consumers have also felt these headwinds as employment, capital investment, and consumption have declined.

The financial challenges we currently face have been caused to a great degree by a decline in the value of mortgage assets and continuing uncertainty about their value in the future. The depreciation of these assets on highly levered bank balance sheets has resulted in an undercapitalized banking sector, and uncertainty surrounding the value of these assets makes banks reluctant to lend to one another, which in turn affects credit availability for consumers and businesses. Community banks, thrifts, and credit unions are vital components of the financial market, and ensuring their health helps to encourage the lending and borrowing activity that is critical for small businesses and consumers. Therefore, it is imperative that we, as policy-makers, promote a healthy financial sector as we confront these challenges.

As the housing correction progresses and home prices stabilize, the turmoil in the financial markets will also subside, allowing credit once again to flow more smoothly through the economy. In the meantime, to alleviate credit market strains, the Treasury, the Federal Reserve, and the FDIC, along with our international counterparts, have taken unprecedented and extraordinary steps to address the current financial crisis-- steps aimed at strengthening bank balance sheets, easing strains in interbank lending and short-term funding markets, and providing needed liquidity. Both U.S.-based and international bodies remain committed to restoring and enhancing the strength of the global financial architecture.

While the long-term economic prospects of the United States are solid, the United States – as well as the global economy – faces considerable near term challenges. The slowdown in economic activity and consumer discretionary spending has affected nearly every sector of the U.S. economy. Small businesses have also felt these strains, and when small businesses suffer, the rest of the economy does as well. Small businesses make a substantial and stable contribution to our economic growth, consistently producing about one-half of private nonfarm GDP. If small business cannot meet their capital needs, they will be unable to fulfill their usual role in driving economic recovery.

Let me cite just a few examples. Small businesses in the retail and restaurant trade sector, which represent 90 percent of all such firms, have been particularly affected by recent economic conditions. The retail sector is estimated to have lost over 250,000 jobs in the past year. The home construction industry, where small businesses make up 80 percent of firms, has also been particularly affected by declining home values and credit market conditions.

Equipment manufacturers have also reported large declines in new orders, capital spending and technology upgrades have slowed significantly, and the drying up of liquidity has made these businesses less able to obtain loans and even meet payrolls. The global financial crisis and tight credit markets have made it harder for small businesses to borrow the money they need to meet their payrolls, create new jobs, and invest in the future.

As the son of a first generation Indian-American engineer who has been building electricity and power generators across the United States for the past 40 years, I have a particular insight into the difficulties facing small business. I hear stories about orders for new equipment and contracts for new investments slowing dramatically over the past twelve months. This illustrates stories from small business across the country we are hearing first hand and reading about in newspapers.

At Treasury, we know that much of this lack of confidence arises from concerns of suppliers and manufacturers about the availability of credit to fund and grow their business. While this is just one example of the implications of reduced credit, I am sure that your Committee has heard other similar stories. These anecdotes aggregate into a worrisome trend that we understand that we must address.

To counter these difficulties, Treasury has applied the authorities Congress provided in October to stabilize the financial system, which will promote the flow of credit, while protecting the taxpayer to the maximum extent possible. Our actions have focused on ensuring adequate capital to financial institutions in order to stabilize markets, promote increased lending, and foster improved growth and job creation.

The focus of the recently enacted legislation on assisting general bank capitalization has been part of a coordinated international effort. This assistance is helping our financial institutions to manage the illiquid assets on their balance sheets and to attract private capital. In addition, we have broadened the Capital Purchase Program to smaller community banks which interact on a day-to-day basis with small businesses. Importantly, many of these privately held institutions have strong, long lasting ties with local businesses. By providing capital to such institutions, Treasury is directly assisting small businesses so that they have the ability to make loans, mitigate funding pressures, and promote growth locally,

These actions, in turn, will provide stability to markets and restore our financial institutions' ability to provide capital flows to the consumers and businesses that rely on stable funding to support their normal economic activity. Strengthening balance sheets of the financial sector will directly benefit small businesses.

In addition to providing capital directly to banks, we are also examining strategies to support access to credit outside the banking system, such as credit card receivables, which are very important for consumers and small businesses. This market is currently in distress – costs of funding have skyrocketed and new issue activity has come to a halt.

Today, the illiquidity in the asset-backed securitization market is affecting the availability of car loans, student loans, and credit cards. With the Federal Reserve, we are exploring the development of a liquidity facility for highly-rated

AAA asset-backed securities. Such a facility could lower costs and increase credit availability for consumers and small businesses. Addressing the needs of the securitization sector will help get lending going again, helping consumers and supporting the U.S. economy.

It will take time for the measures we have taken to have their full impact on an economy in which many consumers and businesses are struggling. But in recent days, we have seen some encouraging signs. The market for lending between banks has loosened considerably, and the Federal Reserve's efforts to stabilize the commercial paper market have provided businesses with an urgently needed source of financing for day-to-day operations.

To conclude, Treasury is very mindful of the challenges and difficulties affecting the small business community. With this pressure in mind, we will continue to focus on stabilizing the overall financial markets, strengthen the banking system, and reestablish the flow of credit so that small business, consumers, and all Americans can more easily obtain credit, and thus grow and expand their businesses.

Thank you for the opportunity to appear today. I will be happy to take your questions.

## Treasury Targets Somali Terrorists

11/20/2008

HP-1283

**Washington, DC--*The U.S. Department of the Treasury today designated three members of al-Shabaab, a violent and brutal extremist group in Somalia.***

"Today's action targets three leaders of al-Shabaab, an al Qaida-linked terrorist group that uses lethal tactics to undermine peace and civil society in Somalia," said Adam Szubin, director of Treasury Office of Foreign Assets Control. "These terrorist commanders have had direct involvement in the kidnappings and cold-blooded murders of numerous Somali officials and civilians and they should be cut off from the world's financial system."

Al-Shabaab has used intimidation and violence to undermine the Somali government and threaten civil society activists working to bring about peace through political dialogue and reconciliation. It has claimed responsibility for shooting Deputy District Administrators in Somalia and for several bombings and shootings in Mogadishu targeting Ethiopian troops and Somali government officials.

In addition to attacks that have killed or wounded various Somali government officials, al-Shabaab claimed responsibility for the February 6, 2008 bombings in Boosaaso, Puntland, which killed 22 Ethiopian civilians and wounded 66.

Further, a number of al-Shabaab members are affiliated with al Qaida, and many of al-Shabaab's senior leaders are believed to have trained and fought with al Qaida in Afghanistan.

The U.S. Department of State named al-Shabaab as a Foreign Terrorist Organization and a Specially Designated Global Terrorist on February 26, 2008.

Today's action was taken pursuant to Executive Order 13224, which targets terrorists and those providing support to terrorists or acts of terrorism. Any assets these individuals hold under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with the designees.

**Identifying Information**

**AHMED ABDI AW-MOHAMED**
AKAs:
Ahmed Abdi Aw Mohammed
Muktar Abdulrahim Abuzubair
Shaykh Mukhtar
Abu Zubeyr
Godani
Godane
DOB:
10 July 1977
POB:
Hargeysa, Somalia
Nationality:
Somali

Ahmed Abdi aw-Mohamed is the founder and a current leader of al-Shabaab. He claimed his group was responsible for the May 2007 assassination of a judge in Beledweyne, Somalia, and in March 2007 he coordinated attacks on Ethiopian troops in Somalia. Aw-Mohamed has also served as a conduit for financing to al-Shabaab.

**ISSA OSMAN ISSA**
AKA:
Musse
Abdullah Bur
Abdullah Atto
Abdala Sudani
Afadey
DOB:
1973
POB:
Malindi, Kenya
Nationality:
Kenyan

Issa Osman Issa has a leadership role in al-Shabaab and has served as a commander of al-Shabaab forces in Somalia.

In late April 2007, Issa led a militia assault against Mogadishu's Basil Hotel, which was often frequented by Ugandan peacekeepers. He also was reportedly involved in recruiting an individual to carry out a successful April 2007 suicide attack against the Ethiopian military presence in Afgooye, Somalia.

Before al-Shabaab's creation, Issa was one of the operatives who fired the surface-to-air missiles used in the failed 2002 attempt to shoot down an Israeli airliner in Mombasa, Kenya. Issa was also involved in the planning of the near-simultaneous attack in 2002 against the Paradise Hotel in Kikambala, Kenya, in which a vehicle-borne explosive device struck the hotel, killing 12 and injuring 40.

**MUKHTAR ROBOW**
AKAs:
Mukhtar Ali Rubu
Mukhtar Abdullahi Ali
Mujahid Mukhtar Robow Ali
Shaykh Mukhtar Robo Ali
Abu Mansur
Abu Mansour
DOB:
1969
ALT. DOB:
10 October 1969*
POB:
Xudur, Somalia
ALT. POB:
Keren, Eritrea*
Nationality:
Eritrean*
National ID No.:
1372584, Kenya*

Passport No.:
0310857, Eritrea, issued 21 August 2006, expires 20 August 2008*

*This identifying information is derived from an Eritrean passport issued under the alias name of Mukhtar Abdullahi Ali.

Mukhtar Robow serves as al-Shabaab's spokesperson, communicating to the press and public on its behalf. He has also served as al-Shabaab's spiritual leader and as its military commander in Southern Somalia.

As an al-Shabaab military commander, Robow has targeted Somali Transitional Federal Government (TFG), Ethiopian and African Union troops in Somalia. In December 2007, Robow's al-Shabaab forces attacked military bases of the Somali government forces, Ethiopian forces and African Union peacekeepers in Mogadishu. In addition, Robow and former al-Shabaab leader Aden Hashi Ayrow (deceased) were responsible for the November 2006 suicide attack against a TFG checkpoint in Baidoa, Somalia. The attack killed at least eight and wounded four.

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**MUKHTAR ROBOW**
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Mukhtar Abdullahi Ali
Mujahid Mukhtar Robow Ali
Shaykh Mukhtar Robo Ali
Abu Mansur
Abu Mansour
DOB:
1969
ALT. DOB:
10 October 1969*
POB:
Xudur, Somalia
ALT. POB:
Keren, Eritrea*
Nationality:

Eritrean*
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# Treasury Designates al-Qaida in Iraq Facilitator

11/20/2008

HP-1284

**Washington, DC**--The U.S. Department of the Treasury today designated Redouane El Habhab, a Germany-based terrorist financier and facilitator who has provided financial support and other services to al-Qaida in Iraq (AQI).

"We must remain vigilant in our efforts to shut every funding stream terrorists and their supporters exploit to carry out attacks in Iraq and around the world," said Adam Szubin, director of Treasury's Office of Foreign Assets Control. "The power and reach of the UN's counterterrorism authorities continue to be critically important tools to shut down financing conduits wherever they may develop."

Redouane El Habhab has supported AQI financially, through payments to the group, and logistically, by facilitating the smuggling of "violence prone activists" into Iraq.

On January 24, 2008, the Schleswig-Holstein Higher Regional Court in Germany convicted Habhab of having provided support to a foreign terrorist organization and sentenced him to a five year, nine month prison term. Habhab initially appealed his sentence; however, he subsequently withdrew this appeal, and he remains in prison in Lübeck, Germany. On November 12, 2008, Habhab's name was added to the Consolidated List of the U.N. 1267 Committee, which obligates all U.N. member states to freeze his assets and prevent his travel.

Redouane El Habhab was designated today under Executive Order 13224, which targets terrorists and those providing support to terrorists or acts of terrorism. Any assets Redouane El Habhab holds under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with him.

**Identifying Information**

**REDOUANE EL HABHAB**
Nationality:
German
DOB:
December 20, 1969
POB:
Casablanca, Morocco
German Passport:
1005552350
German Federal Identity Card:
1007850441
Address:
Iltisstraße 58, 24143 Kiel, Germany

# Remarks by Secretary Henry M. Paulson, Jr. at The Ronald Reagan Presidential Library

11/20/2008

HP-1285

***Simi Valley, Calif.-- Good morning. I am honored to be here at the Reagan Library. There is perhaps no more appropriate place to discuss a topic important to us all – the need to reinvigorate market capitalism, the foundation of our national prosperity. Although Mrs. Reagan is not with us today, I send her my best wishes and thanks for her kind invitation to speak at this event.***

Good morning. I am honored to be here at the Reagan Library. There is perhaps no more appropriate place to discuss a topic important to us all – the need to reinvigorate market capitalism, the foundation of our national prosperity. Although Mrs. Reagan is not with us today, I send her my best wishes and thanks for her kind invitation to speak at this event.

We are working through a severe financial crisis caused by many factors, including government inaction and mistaken actions, outdated U.S. and global financial regulatory systems, and by the excessive risk-taking of financial institutions. This combination of factors led to a critical stage this fall when the entire U.S. financial system was at risk.

This should never happen again. The United States must lead global financial reform efforts, and we must start by getting our own house in order.

The most significant discussion of financial system reform in the last 60 years has begun. This debate offers great opportunities -- and great peril. The events of the last year have exposed excesses and flaws that are, to put it mildly, humbling. If we do not correctly diagnose the causes, and instead act in haste to implement more rather than better regulations, we can do long term harm.

Today I will give my view of recent events, the principles that have guided me, our response to the unfolding crisis and my ideas for regulatory reforms.

My regulatory reform views are based on the principles of transparency and accountability, and my belief that our entrepreneurial nation must continue to foster prudent risk-taking, while not rewarding failure or encouraging recklessness. In all that lies ahead we must never forget that our financial system is built on the hard work of our citizens; it is built on the savings of our citizens – and perhaps most importantly, our financial system depends on the trust and confidence of our citizens.

As I assess our current situation, I believe we have taken the necessary steps to prevent a financial collapse. And the authorities and capacity granted to us by Congress has been the key to this accomplishment. Looking forward, working with the Fed and the FDIC we now have the tools and the commitment to do what is necessary to maintain the stability of our financial system. Many challenges lie ahead and progress will not be in a straight line. The excesses in our system built up over years, and it will take time to work through them.

**Genesis of Financial Turmoil: Global Imbalances**

The U.S. housing correction was clearly the spark that ignited the financial crisis. But the U.S. housing bubble is just one – albeit the largest – manifestation of global excesses. These excesses have been building for years as benign markets, strong global growth, low U.S. saving rates, and policy choices led to large global imbalances and an extraordinary increase in capital flows.

The world was awash in money looking for higher return, and much of this money was invested in U.S. assets. The combination of a huge amount of capital and low interest rates stoked greater risk taking, financial innovation and complexity, not all of it healthy. Financial institutions found new ways to increase leverage – from designing complex new financial instruments, to creating off balance sheet financing vehicles. The global financial system grew increasingly complex and opaque, and regulation did not keep pace.

Low interest rates and the search for ever higher returns boosted global demand for housing. Home prices rose at unsustainable rates in the United States and a number of countries, and housing-related investments also surged. A housing correction was inevitable and when it occurred, home price declines and a wave of foreclosures hit the value of mortgage-related assets particularly hard. The U.S. housing correction was felt here at home and overseas, and the global financial system began to suffer. After 13 months of stress, excesses and inadequate risk management and regulatory policies outside the United States have also been exposed. As Warren Buffet has said, "It's only when the tide goes out that you learn who's been swimming naked."

**Global Financial Turmoil and the U.S. Response**

Our economy and the American people are paying a steep price for that neglect. In response, the United States and many nations have taken a series of urgent, necessary, and temporary steps to limit further damage. Until the financial crisis is behind us we must remain vigilant, ready to respond to and manage unpredictable events that might threaten the system, as they occur. Our first priority is stability and recovery and then we need to repair our financial system to help prevent this from every happening again. Our remedial actions should serve as a bridge to a permanent, modern regulatory framework to serve as the cornerstone of comprehensive reform to ensure this turmoil is never repeated.

When I came to Washington in 2006, markets were benign. Notwithstanding this, in my first meeting with President Bush and his economic team I noted that financial turmoil seems to occur every five to ten years and we needed to be prepared. Thereafter, I regularly convened the President's Working Group on Financial Markets, the PWG, to review risk factors and make recommendations for improvements. We focused on systemic weaknesses and how we might mitigate them in the event of turmoil or -- even worse, a financial crisis.

The government-sponsored enterprises, the GSEs, Fannie Mae and Freddie Mac clearly posed a potential systemic risk. I immediately pursued the Administration's long-sought goal of legislation to improve regulatory oversight of the GSEs. And I directed Treasury staff to begin a study that would lead to practical recommendations for improving our outdated financial regulatory architecture.

As the housing correction progressed in 2007, we acted aggressively to help minimize foreclosures. We convened the industry to develop private sector strategies that now help over 200,000 homeowners avoid foreclosure every month. Since August of 2007, we have pressed financial institutions to raise more capital, and they have -- over $450 billion, and to recognize losses, which they also have -- over $530 billion.

**Bear Stearns on the Brink of Bankruptcy**

Market conditions continued to worsen. And then last March Bear Stearns faced failure, and we faced our first potential systemic event and major challenge. Regulators did not, and still don't, have the authority to administer receivership-like proceedings for non-depository institutions that fail, as they do for commercial banks. The Bear Stearns situation exemplified something former Federal Reserve Chairman Greenspan has pointed out: the real issue is not that an institution is too big or too interconnected to fail, but that it is too big or interconnected to liquidate in a timely and orderly fashion. We were fortunate that JPMorgan purchased Bear Stearns and prevented a bankruptcy, and that the Federal Reserve has statutory authority to lend against a pool of mortgage loans on a fully secured basis. The Fed was able to assist the JPMorgan purchase because they believed that there was a reasonable prospect of avoiding losses.

The Bear Stearns situation made it painfully clear that the federal government needed the authorities to wind-down a failing non-depository institution, particularly if it posed a systemic risk. Chairman Bernanke and I spoke of the need for this authority in the future but recognized that for the near term we would rely on existing tools, as imperfect at they were.

We averted this first systemic event by using our existing authorities creatively. Unfortunately, we were about to find more need to be creative in the coming months. I will leave history to the historians, but from my perspective we responded as quickly and directly as our authorities allowed as a severe market crisis unfolded, and we have never lost focus of our singular goal -- to stabilize the financial system that supports our economy and the everyday lives of all Americans.

There was no playbook for responding to a once or twice in a hundred year event. Instead, I have been guided by several principles in dealing with the Bear Stearns situation and all that followed. My guiding principles in these past months have been:

One, never forget our awesome responsibility to the American people who depend on the financial system to save for college and retirement, for financing homes, cars and companies. If the financial system were allowed to collapse, it is the American people who would pay the price. This has never been just about the banks; it has always been about continued prosperity and opportunity for all Americans.

Two, run to problems – the cost of preventing a systemic event is less than the cost of addressing its catastrophic consequences;

Three, bring people together to work on solutions. Although it is always desirable, in times like these it is essential for government leaders of both parties and for financial leaders from around the world to work together;

Four, define my portfolio expansively – look beyond how authorities have been used in the past, and motivate the private sector, Administration colleagues and regulators to do what is needed;

Five, guard against systemic risk while maintaining market discipline and protecting the taxpayer; and,

Six, be pragmatic enough to change plans when facts and conditions change.

Throughout the last several months, as a variety of challenges has surfaced, these principles guided my efforts to take comprehensive, decisive action to address market issues and build confidence. Three situations in particular illustrate these principles at work – the loss of investor confidence in Fannie Mae and Freddie Mac, the so-called GSEs, in July; the failure of Lehman Brothers in September; and the implementation of the financial rescue package in October.

**Fannie Mae and Freddie Mac: a Crisis in Confidence**

In June and July, concerns about the GSEs' credit losses and capital strength seriously and rapidly undermined investor confidence, but legislation to improve GSE oversight was still mired in Congress. With $5.4 trillion in outstanding GSE debt and agency MBS held by investors around the world, failure of the GSEs posed a huge risk to our financial system. We couldn't wait for them to fail formally. We moved quickly to address this challenge and, in late July, Congress provided us authority to backstop the GSEs, and finalized creation of a stronger GSE regulator, the FHFA.

Throughout August, overall market and housing conditions continued to deteriorate. And we learned that the amount and quality of the GSEs' capital was inadequate. It was necessary to take action – before any systemic event. And it was clear that any effective action would require a combined effort on the part of the Federal Reserve, the FHFA and Treasury. We combined our authorities to find the most effective way forward, and the companies consented to FHFA conservatorship. On September 7th the FHFA placed Fannie Mae and Freddie Mac into conservatorship, and Treasury put in place a preferred stock purchase agreement that in essence guarantees all GSE obligations for their duration. We replaced both companies' CEOs and took warrants for up to 79.9 percent of each company. By stabilizing the GSEs, we've enabled them to play their vital role in making mortgage finance available and affordable as we work through the housing correction.

The conservatorship is a temporary condition, a "time out" period where the new President and Congress must decide what role government in general, and the GSEs in particular, should play in the housing finance market. In my view, government support needs to be either explicit or non-existent, structured to resolve the conflict between public and private purposes, and policymakers must address the issue of systemic risk. This is a situation where the next Administration and Congress will need to take decisive action.

As we worked on the urgent, comprehensive plan that stabilized the GSEs, we were racing to stay ahead of other, likely destabilizing market events.

**Lehman Brothers Unable to Solve its Problems**

There had been rumors of Lehman's potential failure all summer and Lehman had been searching, without success, for a buyer or other solutions to the serious problems they were facing. I had monitored these efforts closely, and as the company reached a critical moment, Fed Chairman Ben Bernanke, New York Fed President Tim Geithner, SEC Chairman Chris Cox and I sought to do everything we could to avert a Lehman failure. We gathered industry leaders the weekend of September 13th to explore all possible options. I was actively engaged in the process as we encouraged two potential buyers to make offers. Each examined Lehman's books, but neither was willing to go forward without off-loading billions of dollars of assets that they considered had substantial unrealized losses.

Treasury and the Federal Reserve had no authority to resolve this problem. Federal law, and in particular the Anti-Deficiency Act, prohibits Treasury from spending money, lending money, and guaranteeing or buying assets without Congressional approval. The Federal Reserve can and does lend on a secured basis, but only if it expects not to realize losses. The Fed couldn't legally lend against the Lehman assets if it expected that loan to result in a loss of any size; this was much different than the case with Bear Stearns.

I tried to put together an industry consortium to facilitate the transaction by purchasing the off-loaded assets, but once the potential buyer failed to obtain regulatory approval, the entire transaction disappeared. Without any federal authority to intervene, we had no choice but to do everything possible to try to mitigate the consequences of a Lehman failure.

That weekend, the management of the nation's largest insurance company, AIG, also informed us that they faced an imminent bankruptcy. AIG's businesses were intertwined throughout the global financial system. Because AIG's underlying insurance companies had value, the Fed could use its authority to make a fully secured loan to AIG. By doing so, it prevented a systemic disruption that would have been an order of magnitude far greater than the Lehman failure.

Some have chosen to scapegoat the Lehman failure as the cause of the deepening crisis in September, as opposed to a symptom. That is at best naïve, and at worst disingenuous. The U.S. government had no authority to rescue Lehman Brothers. Even if Lehman had been acquired, it would not have averted the virtually simultaneous collapse of AIG, or the collapse of Washington Mutual, or the wave of failures that European governments stepped in to avert shortly thereafter.

**Financial Crisis hits the United States and the World**

By mid-September, after 13 months of market stress, the financial system essentially seized up and we had a system-wide crisis. Credit markets froze and banks substantially reduced interbank lending. Confidence was seriously compromised throughout our financial system. Our system was on the verge of collapse, a collapse that would have significantly worsened and prolonged the economic downturn that was already underway.

That was the background against which Chairman Bernanke and I met with the Congressional bipartisan leadership to request emergency legislation. We needed the financial rescue package so we could intervene, stabilize our financial system, and minimize further damage to our economy.

During the two weeks Congress worked on the legislation, market conditions worsened significantly. Many Americans look at the stock market as an indicator of the economy, and during this period they saw tremendous volatility. The Dow Jones Industrial Average fell more than 700 points on one single day, and over 9 percent during the two weeks the legislation was debated – stock market losses amounted to slightly more than $2 trillion.

As disturbing as this was, we were even more focused on the credit markets because they provide our basic economic fuel – borrowing and lending capital – that supports and creates jobs. The confidence in banks and of banks continued to diminish, as did the flow of funds between them. The problems extended to blue chip industrial companies who could only issue commercial paper with very short maturities as the commercial paper market became severely impaired. Small and medium-sized companies, with no direct connection to the financial sector, were losing access to the normal credit needed to meet payrolls, pay suppliers and buy inventory.

During that same period, the government intervened to protect the financial system. The FDIC acted to mitigate the failure of Washington Mutual by facilitating its sale, and made clear that it would intervene to prevent Wachovia's failure. And turmoil had developed in European markets. In a two-day period at the end of September the governments of Ireland, the United Kingdom, Germany, Belgium, France and Iceland intervened to prevent the failure of one or more financial institutions in their countries.

By the time legislation had passed on October 3, the global financial crisis was so broad and so severe, we knew we needed to move quickly and take powerful steps to stabilize our financial system and to get credit flowing again. Our initial intent had been to strengthen the banking system by purchasing illiquid mortgages and mortgage-related securities. But by this time, given the severity and magnitude of the situation, an asset purchase program would not be either effective enough or quick enough. Therefore we exercised the authority granted by Congress in this legislation to quickly deploy a $250 billion capital purchase program, fully anticipating we would follow that with a program for troubled asset purchases.

Again at this time, we collaborated widely and creatively to combine all the tools of the federal government to most effectively address the problem. In a unified set of actions, at the same time we announced the capital purchase program, the Federal Reserve announced a program to support the commercial paper market and the FDIC put in place a temporary guarantee of certain debt issued by banks. These actions, taken as part of a coordinated strategy with policymakers around the world, together prevented a very bad outcome, and significantly increased investor and public confidence in our banks. But it was equally clear we continued to face significant stresses and challenges in our capital and credit markets.

Since mid-October, we have continued to assess how best to use the remaining TARP funds, given the uncertainties around the deteriorating economic situation in the U.S. and globally, and the continuing financial market stresses. We have always said that the housing correction is at the root of the economic downturn and our financial market stress. And as the economy slows further, it threatens to prolong the housing correction.

We knew, too, that to be effective a mortgage asset purchase program would require a massive commitment of TARP funds. In September, before economic conditions worsened, $700 billion in troubled asset purchases would have had a significant impact, providing more flexibility and firepower for this Administration and the next. Although we are not proceeding with direct asset purchase programs, we plan on using our resources aggressively to support the normalization of credit markets and the expansion of credit to support economic recovery. We are actively engaged in developing programs to be implemented when ready.

With the financial system on the verge of collapse, our clear objective when we went to Congress was to stabilize it through measures that would increase capital strength. Our intended strategy had been to free-up capital by purchasing illiquid assets. Since we were careful to get broad authorities from Congress, we were able to change our strategy in order to best achieve our objective.

By proactively addressing the problems we saw coming and being pragmatic enough to change strategy in the face of changed facts and despite the inevitable criticism -- we prevented a far worse financial crisis that would have severely damaged our economy and the economic well-being of all Americans. Had we executed the wrong strategy, and depleted the TARP resources in doing so, we would not have achieved our objective and would have deserved the severe criticism that would have inevitably followed such a failure.

**U.S. Regulatory Reform Recommendations**

Clearly with the market stresses continuing, maintaining stability throughout the recovery process continues to be our first priority and recovery will take some time. There is, quite rightfully, focus on reforming the system that enabled the excesses. We should resist a hasty response for two reasons. First, it is difficult to develop a comprehensive solution while the situation is still unfolding. Second, simply adding new regulations won't be a long-term solution. We need more effective regulations within an entirely new regulatory framework and a stronger capacity for resolution and crisis intervention that reinforces market discipline.

In the Blueprint for Regulatory Reform that we developed prior to this financial turmoil and released last March, and which has proven to be remarkably appropriate, we recommend a U.S. regulatory model based on objectives that better align the regulatory structure with the reasons why we regulate – to ensure stability, safety and soundness and to protect consumers while also supporting innovation.

In our model, a market stability regulator would have authority to review any systemically important financial company, and to look for problems anywhere in the financial system in order to protect against systemic risk. Our continuing challenge has been what to do about non-depository institutions that may be too big or too interconnected to fail. We need a mechanism, essentially an amendment of the federal bankruptcy system, for the orderly wind-down of such institutions. Also, to ensure the market stability regulator can fulfill its role, large, systemically-important institutions, including hedge funds, should be required to have a charter that would permit some type of oversight.

Similarly, any financial product whose market size presents a systemic issue should be subject to regulatory oversight. The PWG has taken steps to achieve this in the crucial OTC derivatives market. Moves to strengthen trade processing, including centralized clearing, although not yet a complete solution, they should enhance transparency and promote standardization.

Transparency must be a higher priority. We need disclosures that can be understood, because complexity often hides risk. Greater standardization would also improve market transparency. And we must conduct a wholesale review of the originate-to-distribute securitization model, because for every significant financial product each party in the product chain must bear certain responsibility or potential risk.

We must address those aspects of our system that reinforce rather than counterbalance cycles; regulators and ratings agencies often take actions after a problem emerges that exacerbates the cycle. For example, mark-to-market accounting is clearly pro-cyclical. Yet I know of no better accounting method, and welcome the steps to review and modify its implementation during severe market stress.

And policymakers and regulators must examine financial services industry compensation practices. Given their role in supporting and sustaining U.S. economic activity, financial institutions' compensation practices should not encourage unsafe and unsound risk taking or reward failure.

Under a new framework, which includes market infrastructure, transparency and wind-down authorities, we could achieve again the proper balance between market discipline and regulatory oversight, and no institution should be deemed to be too interconnected or too big to fail.

**Global Reforms**

Throughout the period of crisis, I and my team have been in constant communication with our international colleagues. We have collaborated on many occasions with clear and compelling results. At the height of the turmoil in October, for example, we and our G-7 colleagues committed to a comprehensive global strategy to provide liquidity to markets, to strengthen financial institutions through capital investment and guaranteeing interbank lending -- to prevent failures that pose systemic risk, to protect savers, and to enforce investor protections. This was a first important step to stabilizing the rapidly deteriorating financial system. I also called a meeting of the G-20 Finance Ministers, which President Bush attended, to begin to build support for a global response.

These efforts laid a foundation for that response. Under President Bush's leadership, the G-20 nations came together this past weekend in a confidence-inspiring session to realistically assess the nature of our problems and agree on an ambitious reform path forward. In several areas, the United States has led the effort for global reform, and these must remain critical priorities for the future.

First, the Treasury and other U.S. regulators, in collaboration with other members of the G-7, have worked tirelessly through the Financial Stability Forum, the FSF, to make rapid and meaningful regulatory reforms to address the root causes of the crisis. There is a growing recognition across major economies that the global financial markets demand that national financial regulation be as consistent as possible and not working at cross-purposes.

Contradictory global regulation impedes cross-border flows, increases costs to consumers, and hurts market transparency and efficiency. To address these realities, national regulators must continue to strengthen cooperation with foreign counterparts in international standard setting bodies and, where appropriate, make regulations more consistent across the world's boundaries. We have taken great care to ensure our efforts abroad are closely integrated with the work of the President's Working Group, which has proven a useful forum for bringing independent regulators together without undermining their independence to achieve important and timely reforms.

The second important priority must be continued reform of the International Financial Institutions like the World Bank and the IMF to allow for greater participation of developing nations. The pressure on these Institutions to respond swiftly and effectively has never been greater. But they are constrained by outdated governance structures and policies. Since coming to Washington, I have consistently said that for these institutions to remain relevant, their membership must reflect the seismic shifts in the global economy. The United States has been the leading advocate for governance reform, and while there has been some progress, more needs to be done.

As examples, the FSF needs to broaden its membership to include key emerging market economies. Similarly, the IMF and World Bank need to accord dynamic emerging market economies greater representation and participation in their daily operations. In addition, the IMF, the World Bank, as well as the regional development banks should consider how to reform their executive boards to make them more accountable, streamlined, and effective. We should also consider whether these institutions could benefit from non-resident boards. This proposal could free-up resources and enable management to focus on issues of more strategic importance. Governance reforms such as these would be usefully discussed by the outside commissions that Managing Director Dominique Strauss Kahn and President Bob Zoellick have set up for their respective institutions.

A final reform priority must be consistent liberalization of policies on trade and investment, with an emphasis on avoiding new protectionist measures and achieving a breakthrough in the Doha round of global trade talks. In this time of anxiety and uncertainty, we must not lose sight of the importance of free trade and open investment in spurring economic growth. Expanding markets through trade promotes investment that fuels economic dynamism and innovation, as well as deployment of new technologies that raise productivity, and ultimately our standard of living. I have made pro-investment policies for the United States a priority since arriving at Treasury, and we have made very good progress on this front. But open investment policies are not enough. With global growth expected to slow, we need to support trade policies that will help lower trade barriers, create market access for developing countries and a path to prosperity for the world's poor. In the United States, this means finalizing already negotiated trade agreements and supporting free trade policies in the future. Especially during such a difficult economic period, we must resist the pressures to turn inward and we must ensure that our international colleagues share this strong commitment.

**Conclusion**

Until the financial crisis is behind us, we must remain vigilant, ready to respond and to manage unpredictable events as they occur. And we have the capacity and the commitment to do just that. Our first priority is on stability and recovery. And then we will need to repair our financial system and the global system to help prevent this from ever happening again.

The key to success is pro-active, creative collaboration. In the United States, this means Democrats and Republicans must cooperate and manage an unprecedented situation, and find solutions that restore and maintain our national economic well-being. Globally, it means sovereign nations working together to protect economic and social stability. In this increasingly inter-connected and inter-dependent global economy we are all in the same boat. We must work together to first plug the leak, bail, and row together to reach the shore. Then we must work as a team to overhaul and refit the boat so we can handle the rough seas that will undoubtedly test us in the future.

The journey ahead will no doubt be a difficult one. But I am an optimist and believe we will work together, both domestically and globally, on this path to recovery and an eventual return to prosperity.

# Treasury Enters into Agreement to Assist the Reserve Fund's US Government Money Market Fund

11/20/2008

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hp-1286

**Washington-** ***The U.S. Treasury Department announced today that it agreed to assist with the liquidation of The Reserve Fund's U.S. Government Fund, due to unique and extraordinary circumstances.***

The U.S. Treasury Department announced today that it agreed to assist with the liquidation of The Reserve Fund's U.S. Government Fund, due to unique and extraordinary circumstances.

The fund, which Treasury accepted into its temporary guarantee program for money market funds, has not made a claim to Treasury under the program. In a separate agreement with the fund, the Treasury has agreed to serve as a buyer of last resort for the fund's securities, which consist of short-term U.S. government and government sponsored enterprise securities.

This action is being taken to ensure that the fund is liquidated in an orderly and timely fashion.

The agreement grants the fund a 45-day period where it will continue to sell assets at or above their amortized cost. At the conclusion of this period, Treasury's Exchange Stabilization Fund will purchase any remaining securities at amortized cost, up to an amount required to ensure that each shareholder receives $1 for every share they own.

This extraordinary action is in response to the unique situation of the money market fund. This fund was permitted to suspend share redemptions as of September 17, in accordance with an order issued by the Securities and Exchange Commission.

No other funds participating in Treasury's temporary guarantee program received a similar order from the SEC. Because of this, Treasury does not foresee a need to take similar actions with regard to any other funds participating in Treasury's temporary guarantee program.

Treasury's agreement with the fund requires the fund's adviser and its trustees to waive their fees accrued after November 19 to the extent that fund shareholders do not receive distributions of $1 per share.

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**REPORTS**

- Letter Agreement

# UNITED STATES DEPARTMENT OF THE TREASURY

November 19, 2008

The Reserve Fund
1250 Broadway
New York, NY 10001
Attention: President

**Letter Agreement ("Letter Agreement") Relating to the Guarantee Agreement, dated as of September 19, 2008, between the Treasury and The Reserve Fund (the "Guarantee Agreement")**

Ladies and Gentlemen:

Reference is hereby made to the Guarantee Agreement, dated as of September 19, 2008, between the United States Department of the Treasury (the "Treasury") and The Reserve Fund (the "Investment Company"), a business trust organized under the laws of Massachusetts, on behalf of the funds listed in Annex A attached thereto, including the U.S. Government Fund (the "Fund"), a series of the Investment Company. The Treasury has requested, and the Investment Company has agreed, to enter into this Letter Agreement to address certain matters arising out of the Investment Company's decision to suspend the redemption of the Fund's shares and to liquidate the Fund.

The Investment Company, on behalf of itself and the Fund, and the Treasury hereby agree as follows:

**1. Definitions.**

(a) Unless otherwise defined herein, capitalized terms used herein have the meaning assigned to such terms in the Guarantee Agreement.

(b) "Amortized Cost" of a security shall mean the acquisition cost of a security, as adjusted for the amortization of premium or the accretion of discount, plus accrued but unpaid interest.

(c) "Portfolio Securities" shall mean all securities held by the Fund other than investments of the type specified in Section 2(d). For the purposes of clarity, the term Portfolio Securities does not include cash.

(d) "Letter Agreement Date" shall mean November 19, 2008.

## 2. Sale of Portfolio Securities

(a) General. The Investment Company shall use its best efforts to sell or otherwise dispose of all Portfolio Securities not later than the 45th day after the Letter Agreement Date ("Final Sale Date").

(b) Sales of Portfolio Securities at Amortized Cost. In no event shall the Investment Company cause the Fund to dispose of any Portfolio Security if the net proceeds to the Fund from such sale (after deducting brokerage fees or other transaction expenses, if any, payable to third parties) (the "Net Proceeds") would be less than such Security's Amortized Cost *unless*

(i) the Investment Company obtains the prior written consent of the Treasury to such transaction, which approval Treasury may withhold in its sole and absolute discretion; or

(ii) the Net Proceeds from all sales of Portfolio Securities on the date of such sale is greater than or equal to the aggregate of the Amortized Cost of the Portfolio Securities sold on such date.

(c) Use of Proceeds. The Net Proceeds shall be used in furtherance of the Fund's liquidation, and such proceeds (net of accrued or anticipated Fund expenses including, for this purpose, fees that would be payable to the Investment Adviser under the Investment Management Agreement between the Investment Adviser and the Investment Company, on behalf of the Fund (the "Investment Management Agreement") and fees that would be payable to the Investment Company's Trustees with respect to the Fund (the "Trustee's Fees") notwithstanding the waiver described in Section 5(a)(viii), provided that the amounts that are held to pay such fees shall only be paid if permitted by the waiver described in Section 5(a)(viii)) shall be distributed to the Fund's shareholders as promptly as practicable after the accumulation by the Fund of cash of sufficient magnitude to make a distribution in an efficient manner *provided, however,* that the accumulation of $1 billion of proceeds shall be deemed to be of sufficient magnitude to make a distribution unless the accounts of the Fund shareholders have not been reconciled to the extent necessary for a distribution on terms acceptable to the Board of Trustees, in which case the Investment Company shall use its best efforts to reconcile the accounts as soon as practicable and shall provide weekly reports to the Treasury describing the status of the distribution.

(d) Limitation on Temporary Investments. Pending the application of the Net Proceeds as required under Section 2(c), such proceeds shall be held in cash or invested solely in (i) U.S. Treasury bills with a remaining maturity not to exceed 30 days, *provided, however*, that the maturity date of such Treasury bills shall be at least one day prior to the anticipated date on which the Fund will make a distribution to its shareholders; (ii) overnight time deposits placed with a "bank" (as such term is defined in the 1940 Act) or "foreign bank" (as such term is defined in Rule 3a-6 under the 1940 Act) whose short-term debt securities, in each case, are

"First Tier Securities" and "Rated Securities" (as such terms are defined in Rule 2a-7 under the 1940 Act) (each an "Eligible Bank"); and (iii) overnight repurchase agreements entered into with Eligible Banks or broker-dealers that have outstanding First Tier Securities, which repurchase agreements are "collateralized fully" (as such term is defined in Rule 5b-3 under the 1940 Act) by Government Securities (as such term is defined in the 1940 Act).

**3. ESF Purchase of Remaining Securities.**

(a) Notice. In the event that the Fund has not sold all of its Portfolio Securities on or before the Final Sale Date, it shall, not later than the second Business Day following the Final Sale Date, deliver to the Treasury and its designee a notice in the form of Exhibit A (the "Sale of Portfolio Securities Notice").

(b) Purchase and Sale Conditions. The Investment Company agrees that it shall cause the Fund to sell to the ESF, and the Treasury, on behalf of the ESF, agrees that it shall purchase from the Fund, all Portfolio Securities that are owned by the Fund on the Final Sale Date (the "Remaining Securities") for a sale price equal to the aggregate of such Securities' Amortized Cost (the "Purchase Price"), as Reported in the Sale of Portfolio Securities Notice, which Purchase Price shall be adjusted as set forth in Section 3(c). Such purchase and sale shall be subject to the following conditions:

(i) The settlement of the purchase and sale of the Remaining Securities shall take place no later than the fifth Business Day following the Final Sale Date or on such later Business Day as (A) the Investment Company certifies that, within one Business Day of receipt of the Purchase Price proceeds, no legal or technical impediment exists that will prevent the distribution of such proceeds to Fund shareholders (which settlement date shall be not later than the ninth Business Day following the Final Sale Date) or (B) may be agreed upon by the Investment Company and the Treasury (the "Settlement Date").

(ii) The obligation of the ESF to consummate the purchase of the Remaining Securities shall be subject to the conditions (which conditions may be waived by the Treasury in its sole and absolute discretion) that:

(A) either the Investment Company or the Fund shall be, on the Settlement Date, the lawful owner, beneficially and of record, of the Remaining Securities, free and clear of all security interests, claims, liens, equities or other encumbrances or adverse claims of any kind and any other limitation or restriction;

(B) a Guarantee Event shall not have occurred; and

(C) the Treasury shall have sufficient funds available for the payment of the purchase price within the ESF, as determined by the Treasury in its sole and absolute discretion, which amount may be further adjusted as set forth in Section 2(f) of the Guarantee Agreement (for which purpose, the Sale of Portfolio Securities Notice shall be deemed to be a Payment Request Notice under Section 7(g) of the Guarantee Agreement).

(iii) The obligation of each party to consummate the purchase and sale of the Remaining Securities shall be subject to the conditions that no statute, rule, regulation, judgment, decree or order of any kind shall have been enacted, entered, promulgated or enforced by any court or other governmental authority that prohibits the consummation of the transactions contemplated hereby or has the effect of making them illegal.

(iv) (A) The Investment Company shall have provided the Treasury with a schedule, in the form specified by the Treasury or its designee, setting forth the basis for the calculation of the Amortized Cost of each of the Remaining Securities; (B) the Fund's current independent auditor or another accounting firm acceptable to the Treasury in its sole and absolute discretion (the "Independent Auditor") shall have (I) audited such schedule and a schedule setting forth the amount of cash and other assets distributed, or set aside for distribution, by the Fund to its shareholders after September 17, 2008, and (II) provided the Treasury with an opinion and/or other report acceptable to the Treasury in its sole and absolute discretion confirming the accuracy of such calculations and amounts; and (C) the Treasury shall have determined in its sole and absolute discretion that such calculations and amounts are true and correct.

(v) The Investment Company shall not have established any reserves with respect to the liquidation of the Fund other than for the payment of permitted Fund operating expenses, which shall not include any reserves for payments on claims asserted against the Fund and which reserves shall not exceed the expenses listed on Exhibit D reduced by the expenses related to Trustees' fees and the comprehensive management fee.

(c) Adjustment to the Purchase Price. In no event shall the Purchase Price exceed an amount equal to:

(i) the number of the shares of the Fund outstanding on September 17, 2008 (after giving effect to the issuance and redemption of shares, the orders for which were deemed received by the Fund prior to the determination, in accordance with Rule 22c-1, of its final NAV for such date), multiplied by

(ii) $1.00, plus

(iii) the amount of income earned by the Fund after September 14, 2008; minus

(iv) the amount of cash and other assets distributed, or set aside for distribution, by the Fund, including amounts distributed or to be distributed as income or gains, to Fund shareholders after September 17, 2008.

(d) Payment of Purchase Price. The Treasury shall deliver to the Investment Company on the Settlement Date the aggregate Purchase Price for the Remaining Securities in United States dollars via wire transfer of immediately available funds in accordance with the written settlement instructions communicated by the Investment Company to the Treasury.

(e) Delivery of Remaining Securities. The Investment Company shall deliver or cause the delivery of the Remaining Securities promptly following the receipt of written notice from the Treasury in accordance with the written settlement instructions communicated by the Treasury to the Investment Company.

(f) Distribution of Proceeds. Within three days after receipt or, if the Settlement Date is determined in accordance with Section 3(b)(i)(A), one Business Day after receipt by the Fund, the Investment Company shall distribute the proceeds from the sale of the Remaining Securities to Fund shareholders (net of accrued Fund expenses including, for this purpose, fees that would be payable to the Investment Adviser under the Investment Management Agreement and to the Trustees as Trustee's Fees notwithstanding the waiver described in Section 5(a)(viii), provided that the amounts that are held to pay such fees shall only be paid if permitted by the waiver described in Section 5(a)(viii)) in furtherance of the Fund's liquidation.

**4. Liquidation and Other Matters.**

(a) Cash on Hand and Payments Received. Any cash currently held by the Fund or any principal, interest or other payment paid on or in relation to the Portfolio Securities or other assets of the Fund that are received by the Fund after the Letter Agreement Date shall be applied, as promptly as practicable, to (i) distributions to Fund shareholders in the same manner as the proceeds from the sales of Portfolio Securities pursuant to Section 2(c) and (ii) pay expenses of the Fund, including fees that would be payable under the Investment Management Agreement and to the Trustees as Trustee's Fees notwithstanding the waiver described in Section 5(a)(viii), provided that the amounts that are held to pay such fees shall only be paid if permitted by the waiver described in Section 5(a)(viii). Pending such application, such proceeds may only be invested or reinvested as specified in Section 2(d).

(b) Liquidation. Upon the sale of all of the Portfolio Securities (including the sale contemplated by Section 3) and the redemption of the Fund's shares, the Investment Company shall promptly complete the actions necessary under applicable state and federal law to liquidate the Fund and, upon completion, the Investment Company shall provide the Treasury with a certificate in the form of Exhibit B (the "Certificate of Liquidation").

**5. Representations and Covenants**

(a) Representations. The Investment Company, on behalf of the Fund, represents and warrants that:

(i) The Investment Company has all requisite power and authority to execute and deliver this Letter Agreement and to perform its obligations hereunder, and this Letter Agreement has been duly and validly authorized by all requisite action;

(ii) The Board of Trustees, including a majority of its members who are not "interested persons" of the Investment Company as determined under the 1940 Act, has determined that entering into this Letter Agreement and the Investment Company's fulfillment of its obligations hereunder are in the best interests of the Fund and its shareholders;

(iii) The execution, delivery and performance of this Letter Agreement do not violate, conflict with, result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) or give to any third party any right of termination, cancellation, amendment or acceleration under (A) any law applicable to the Investment Company, (B) any order or judgment of any court or other agency of government applicable to it or any of its assets, (C) any provision of its organizational documents or (D) any contractual restriction binding on or affecting it or any of its assets;

(iv) All governmental, third party and other consents or approvals that are required to have been obtained by the Investment Company with respect to execution, delivery and performance of this Letter Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

(v) The Investment Company's obligations under this Letter Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));

(vi) As of the Letter Agreement Date, no Guarantee Event has occurred;

(vii) Exhibit C is the Portfolio Schedule of the Fund, which sets forth all of the Fund's Portfolio Securities on November 18, 2008, and the Fund has not entered into any commitment, agreement or understanding to acquire additional assets that is not reflected on such Portfolio Schedule except for such investments as are permitted under Section 2(d);

(viii) The Investment Adviser has waived the payment of all fees due under its Investment Management Agreement and the Trustees have waived the payment of all Trustee's Fees that accrue on and after the Letter Agreement Date to the extent that (A) such fees exceed the amount of income earned and received by the Fund after September 14, 2008 that has not been distributed, or set aside for distribution, to Fund shareholders and (B) Fund shareholders have not received distributions of at least $1.00 per share after September 14, 2008 (after giving effect to the distribution of the Purchase Price proceeds to Fund shareholders);

(ix) The Fund suspended the redemption of its shares as of September 17, 2008 and, since such date, has not issued any additional shares;

(x) The trustees of the Investment Company who are not "interested persons" of the Investment Company as determined under the 1940 Act and who constitute a majority of the Board have determined that it should not be necessary to establish any reserves in connection with the anticipated liquidation of the Fund; and

(xi) Exhibit D sets forth a schedule of specific types (including creditor's names if available) of expenses that the Investment Company currently believes will be payable by, or with respect to, the Fund pending its liquidation, including the party to which such expenses shall be paid.

(b) Certain Matters Regarding Redemption. The Treasury acknowledges that the Fund suspended redemption of its shares as of September 17, 2008 in accordance with an order issued by the SEC (the "SEC Order"), which order was published in Investment Company Act of 1940 Release No. 28386 (September 22, 2008). The Treasury agrees that such suspension of redemptions, in accordance with the SEC Order, is not inconsistent with the representation made by the Investment Company in Section 8(d) of the Guarantee Agreement.

(c) Additional Covenants of the Investment Company.

(i) On the first Business Day of each week until the Final Sale Date, the Investment Company, on behalf of the Fund, shall provide the Treasury with a Portfolio Schedule as of the close of business on the last Business Day of the prior week.

(ii) The Fund shall not issue any additional shares.

(iii) Neither the Investment Adviser, nor any "affiliated person" (as such term is defined in the 1940 Act) of the Investment Adviser, or affiliated person of such person, shall receive any fees, payments or other compensation in connection with the Fund's disposition of Portfolio Securities or the investment or reinvestment of Fund assets.

(d) Guarantee Event. For the avoidance of doubt, the parties agree that if, prior to the purchase of securities by the ESF as described in Section 3, a Guarantee Event occurs, the provisions of the Guarantee Agreement shall apply in full force and effect and the obligations of the parties under the Guarantee Agreement shall continue in full force and effect, provided, however, that (i) all sales of Portfolio Securities shall be made in accordance with Section 2(b), (ii) the ESF shall have the option, in its sole and absolute discretion, to purchase any Portfolio Security at Amortized Cost in accordance with the terms of Section 3 but shall not otherwise be required to purchase the Remaining Securities, and (iii) the Fund shall be required to liquidate within 30 days unless the Treasury consents, in writing, to an extension.

**6. General**

(a) Binding Effect. This Letter Agreement, upon execution and delivery by the parties, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns as of the Letter Agreement Date.

(b) Assignments. The Investment Company may not assign its rights under this Letter Agreement to any person or entity, in whole or in part, without the prior written consent of the Treasury, whose consent may be withheld in the Treasury's sole and absolute discretion.

(c) Headings, Section and Exhibit References. The headings contained in this Letter Agreement are for purposes of convenience only and shall not affect the meaning or interpretation of this Letter Agreement. Unless otherwise specified, all references to a Section or Exhibit in this Letter Agreement are referenced to a Section of, or Exhibit to, this Letter Agreement.

(d) Entire Agreement. This Letter Agreement, together with the Guarantee Agreement and all other agreements or documents executed by one or more parties hereto and delivered to one or more other parties hereto in connection herewith, constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(e) Waivers and Amendments. No waiver of any provision hereof or of any right or remedy hereunder shall be effective unless in writing and signed by the party against whom such waiver is sought to be enforced. No delay in exercising, no course of dealing with respect to or no partial exercise of any right or remedy hereunder shall constitute a waiver of any other right or remedy, or future exercise thereof.

(f) Severability. If any provision of this Letter Agreement is determined to be invalid under any applicable statute or rule of law, it is to that extent to be deemed omitted, and the balance of the Letter Agreement shall remain enforceable.

(g) Notices. All Notices under this Letter Agreement shall be made in accordance with the instructions under the Guarantee Agreement.

(h) Certain Matters Related to the ESF. Nothing in this Letter Agreement shall limit the authority of the Treasury or the Secretary to control or use the ESF, including funds held by the ESF that have been designated for use in the Program, for any other purpose. For purposes of Section 10(b) of the Gold Reserve Act, as amended (31 U.S.C. 5302(b)), this Letter Agreement is an "instrument of credit" and the shares of the Fund to which it relates are "securities."

(i) Counterparts. This Letter Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall together constitute one and the same instrument.

(j) Termination.

(i) This Letter Agreement shall terminate upon the earlier to occur of (A) a Guarantee Event, provided, however, that Sections 5(c) and 5(d) shall continue in full force and effect or (B) the liquidation of the Fund in accordance with Section 4.

(ii) In the event that (i) the Program is extended and (ii) the Fund is eligible to continue to participate in the Program under Section 3(c) of the Guarantee Agreement, the Fund shall take such actions as are necessary to continue to participate in the Program, *provided, however,* that the Treasury waives the payment by the Fund of any Program Extension Participation Payment.

(k) Governing Law and Venue. This Letter Agreement shall be governed by, and construed in accordance with, the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of

New York without regard to its conflict of laws provisions (except Section 5-1401 of the New York General Obligations Law). Except as otherwise required by law, the United States District Court for the District of Columbia shall have exclusive jurisdiction over all civil actions arising out of this Letter Agreement, and the venue for any such civil action shall lie exclusively in the United States District Court for the District of Columbia.

(l) No Third-Party Beneficiaries. Nothing in this Letter Agreement shall confer any rights upon any Designated Shareholder or any other person other than the parties hereto and their respective successors and permitted assigns.

(m) Limitation of Liability. The Treasury agrees that the obligations and agreements of the Investment Company under this Letter Agreement are undertaken on behalf of the Fund and that any claims against the Investment Company hereunder shall be limited in all cases to the Fund to which the claim relates and its assets. The Treasury agrees that it shall not seek satisfaction of any claims from any other series or portfolio of the Investment Company that is not the Fund.

If the above correctly reflects our understanding and agreement with respect to the foregoing matters, please so confirm by signing the enclosed copy of this letter agreement in the space provided below.

THE DEPARTMENT OF THE TREASURY

By: ______________________

Name: DAVID G. NASON

Title: Assistant Secretary for Financial Institutions

Date of Execution: 11-19-08

Address: Department of the Treasury
Attn: MMFGP
1425 New York Avenue, N.W.
Suite 2100
Washington, DC 20220
E-mail:
moneymarketfundsguaranteeprogram
@do.treas.gov

Acknowledged and agreed as of the date first above written; in addition, the Investment Company confirms all representations, warranties, and covenants made above.

THE RESERVE FUND

By: ____________________

Name: William E. Viklund

Title: Trustee

Date of Execution: November 18, 2008

Address for Notices:

The Investment Adviser of the Fund hereby acknowledges and agrees to this Letter Agreement and confirms that, to the extent required under Section 5(a)(viii), it has waived the payment of fees payable under the Investment Management Agreement that accrue on and after the Letter Agreement Date.

RESERVE MANAGEMENT COMPANY, INC.

By:____________________
Name: Bruce R. Bent
Title: Chairman
Date of Execution: November 18, 2008

Address for Notices:

The Reserve
1250 Broadway
32nd Floor
New York, NY 10001

## Exhibit A: Form of Sale of Portfolio Securities Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

____________________[1]

This Notice is delivered in accordance with Section 3 of the Letter Agreement dated as of November 19, 2008 between the United States Department of the Treasury (the "Treasury") and The Reserve Fund (the "Investment Company"), a business trust organized under the laws of Massachusetts (the "Letter Agreement"), with respect to the U.S. Government Fund (the "Fund"), a series of the Investment Company. Capitalized terms used herein have the meaning assigned to such terms in the Letter Agreement.

The Investment Company represents and warrants that as of [insert Final Sale Date] (the "Final Sale Date"), which is not later than the 45th day after the Letter Agreement Date:

1. The Investment Company has used its best efforts to sell or otherwise dispose of all Portfolio Securities at or above Amortized Cost. The Portfolio Schedule (as such term is defined in the Guarantee Agreement) as of the date of this Notice is attached to this Notice as Schedule A.

2. Since the Letter Agreement Date, the Investment Company has not disposed of any Portfolio Security in contravention of Section 2(b) of the Letter Agreement. The list of the Portfolio Securities which have been sold is attached to this Notice on Schedule B, prepared in Microsoft Excel format or such other format as the Treasury may request, including, with respect to each security: (i) the CUSIP number (if any); (ii) principal amount; (iii) maturity date as determined under Rule 2a-7; (iv) final maturity date, if different from the maturity date referred to in clause (iii); (v) the net sale price; (vi) the date of the sale; and (vii) the Amortized Cost.

3. A schedule setting forth the Investment Company's basis for the calculation of the Amortized Cost of each of the Remaining Securities, a copy of which is attached hereto as Schedule C, is true and correct in all respects. The Investment Company has caused the Independent Auditor to deliver to the Treasury the opinion or report required by the Section 3(b) of the Letter Agreement.

4. Either the Investment Company or the Fund is the lawful owner, beneficially and of record, of the Remaining Securities, free and clear of all security interests, claims, liens, equities or other encumbrances or adverse claims of any kind and any other limitation or restriction.

---

[1] *[insert date]*

5. No Guarantee Event has occurred after the Letter Agreement Date.

6. No statute, rule, regulation, judgment, decree or order of any kind has been enacted, entered, promulgated or enforced by any court or other governmental authority that prohibits the consummation of the transactions contemplated hereby or has the effect of making them illegal.

7. The Investment Company has not established any reserves with respect to the liquidation of the Fund other than for the payment of permitted Fund operating expenses, which does not include any reserves for payments on claims asserted against the Fund and which reserves shall not exceed the expenses listed on Exhibit D reduced by the expenses related to Trustees' fees and the comprehensive management fee.

8. The sale price for the Remaining Securities is in the aggregate $ ______________________ (the "Purchase Price"). To the extent necessary, the Purchase Price has been adjusted as required by Section 3(c) and a detailed report of the calculations underlying the adjustment is set forth in Schedule D.

9. The payment instructions for the Purchase Price are attached hereto as Schedule E.

[10. The Settlement Date shall be [ ]. The Investment Company certifies that that, within one Business Day of receipt, it can distribute the Purchase Price proceeds to Fund shareholders in accordance with Section 3 of the Letter Agreement.][2]

THE RESERVE FUND

By:____________________
Name:
Title:

ADDRESS FOR NOTICES

The Investment Adviser confirms the accuracy of the representations set forth above.

---

2 [*Insert this paragraph if the Settlement Date is determined under Section 3(b)(i)(A).*]

RESERVE MANAGEMENT COMPANY, INC.

By:____________________
Name:
Title:

ADDRESS FOR NOTICES

## SCHEDULE A TO SALE OF PORTFOLIO SECURITIES NOTICE: THE REMAINING SECURITIES

**SCHEDULE B TO SALE OF PORTFOLIO SECURITIES NOTICE:**
**SALES OF PORTFOLIO SECURITIES**

## SCHEDULE C TO SALE OF PORTFOLIO SECURITIES NOTICE: BASIS FOR AMORTIZED COST DETERMINATION FOR REMAINING SECURITIES

**SCHEDULE D TO SALE OF PORTFOLIO SECURITIES NOTICE: BASIS FOR PURCHASE PRICE ADJUSTMENT**

## SCHEDULE E TO SALE OF PORTFOLIO SECURITIES NOTICE: PAYMENT INSTRUCTIONS

## Exhibit B: Form of Certificate of Liquidation

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

[Date]

This Certificate is delivered in accordance with Section 4(b) of the Letter Agreement dated as of November 19, 2008 between the United States Department of the Treasury (the "Treasury") and The Reserve Fund (the "Investment Company"), a business trust organized under the laws of Massachusetts (the "Letter Agreement"), with respect to the U.S. Government Fund (the "Fund"), a series of the Investment Company. Capitalized terms used herein have the meaning assigned to such terms in the Letter Agreement.

The undersigned, a duly appointed officer of the Investment Company, hereby certifies that as of [insert Date of Liquidation] (the "Liquidation Date") with respect to the Fund:

1. The Investment Company has disbursed to the Fund's shareholders of record all of the amounts received from the Treasury, net of permissible expenses, in accordance with the Letter Agreement.

2. Since September 17, 2008, each shareholder of record of the Fund has received, with respect to each share such shareholder held of record on such date, an amount equal to, but not greater than, $1.00 per share plus such shareholder's pro rata share of the assets attributable to the Fund's net income after September 14, 2008.

3. On the Liquidation Date, the amount of the remaining total assets of the Fund, after giving effect to the distributions to shareholders, was $___________ and the amount of the Fund's remaining liabilities was $______. Schedule A to this Certificate sets forth a schedule of the Fund's remaining assets and liabilities. The Investment Company has not established any reserves with respect to the liquidation of the Fund other than for the payment of permitted Fund operating expenses, which does not include any reserves for payments on claims asserted against the Fund which reserves shall not exceed the expenses listed on Exhibit D reduced by the expenses related to Trustees' fees and the comprehensive management fee.

THE RESERVE FUND

By:____________________
Name:

Title:
Date of Execution:

ADDRESS FOR NOTICES

**SCHEDULE A TO CERTIFICATE OF LIQUIDATION: REMAINING ASSETS AND LIABILITIES**

## Exhibit C: Portfolio Schedule

1. C-1 – Portfolio Schedule with pricing as of November 14, 2008.

2. C-2 – Schedule of Investments as of November 18, 2008.

Exhibit C-1: Portfolio Schedule

**11/14/2008 Reserve U.S. Government Fund**

| Custody Cusip | Security Description | Security Status | Maturity Date | Share /Par | Amortized Cost | Market Value | % Variance | FT/IDC Vendor Price |
|---|---|---|---|---|---|---|---|---|
| 31331X3B6 | FED FARM CREDIT | First Tier Security | 03/11/2009 | 100,000,000 | 100,000,000 | 99,777,000 | -0.223 | 99.777 |
| 31331X3P5 | FEDERAL FARM CR BKS CONS SYST | First Tier Security | 03/17/2009 | 250,000,000 | 250,000,000 | 249,420,750 | -0.2317 | 99.7683 |
| 31331XW73 | FEDERAL FARM CR BKS | First Tier Security | 02/23/2009 | 200,000,000 | 200,000,000 | 199,610,000 | -0.195 | 99.805 |
| 31331Y3A6 | FEDERAL FARM CREDIT BANK | First Tier Security | 01/11/2010 | 235,000,000 | 235,000,000 | 234,835,735 | -0.0699 | 99.9301 |
| 31331YDS6 | FEDERAL FARM CREDIT BANK | First Tier Security | 11/16/2009 | 250,000,000 | 250,000,000 | 248,307,750 | -0.6769 | 99.3231 |
| 31331YDS6 | FEDERAL FARM CREDIT BANK | First Tier Security | 11/16/2009 | 250,000,000 | 250,000,000 | 248,307,750 | -0.6769 | 99.3231 |
| 3133XLZN6 | FEDERAL HOME LN MTG DISC NTS | First Tier Security | 02/20/2009 | 100,000,000 | 100,000,000 | 99,816,300 | -0.1837 | 99.8163 |
| 3133XNDG1 | FEDERAL HOME LN BKS | First Tier Security | 11/20/2009 | 200,000,000 | 200,000,000 | 199,684,800 | -0.1576 | 99.8424 |
| 3133XNF61 | FEDERAL HOME LN BKS | First Tier Security | 11/23/2009 | 200,000,000 | 200,000,000 | 199,682,000 | -0.159 | 99.841 |
| 3133XPEC4 | FEDERAL HOME LN BKS | First Tier Security | 01/30/2009 | 200,000,000 | 200,000,000 | 199,728,400 | -0.1358 | 99.8642 |
| 3133XPFE9 | FEDERAL HOME LN BKS | First Tier Security | 01/30/2009 | 250,000,000 | 250,000,000 | 249,670,250 | -0.1319 | 99.8681 |
| 3133XPFE9 | FEDERAL HOME LN BKS | First Tier Security | 01/30/2009 | 250,000,000 | 250,000,000 | 249,670,250 | -0.1319 | 99.8681 |
| 3133XPMW1 | FEDERAL HOME LN BKS | First Tier Security | 08/07/2009 | 250,000,000 | 250,000,000 | 248,880,500 | -0.4478 | 99.5522 |
| 3133XPP57 | FEDERAL HOME LN BKS | First Tier Security | 02/20/2009 | 250,000,000 | 250,000,000 | 249,610,000 | -0.156 | 99.844 |
| 3133XQQC9 | FEDERAL HOME LN BKS | First Tier Security | 04/13/2009 | 100,000,000 | 100,000,000 | 99,960,800 | -0.0392 | 99.9608 |
| 3133XQRC8 | FEDERAL HOME LN BKS | First Tier Security | 04/21/2009 | 100,000,000 | 100,000,000 | 99,754,300 | -0.2457 | 99.7543 |
| 3133XQTM4 | FEDERAL HOME LN BKS | First Tier Security | 10/28/2009 | 200,000,000 | 200,000,000 | 199,796,200 | -0.1019 | 99.8981 |
| 3133XRQA1 | FEDERAL HOME LN BKS | First Tier Security | 12/28/2009 | 250,000,000 | 250,000,000 | 249,831,750 | -0.0673 | 99.9327 |
| 3133XRWM8 | FED HOME LN BANK CONS BD | First Tier Security | 01/28/2009 | 350,000,000 | 350,000,000 | 350,070,000 | 0.02 | 100.02 |
| 3136F9GL1 | FANNIE MAE | First Tier Security | 10/07/2009 | 100,000,000 | 100,000,000 | 99,861,500 | -0.1385 | 99.8615 |
| 3136F9GL1 | FANNIE MAE | First Tier Security | 10/07/2009 | 100,000,000 | 100,000,000 | 99,861,500 | -0.1385 | 99.8615 |
| 31398AKZ4 | FEDERAL NATL MTG ASSN | First Tier Security | 01/09/2009 | 875,000,000 | 875,000,000 | 875,000,000 | 0 | 100 |
| 31398AMA7 | FANNIE MAE | First Tier Security | 01/23/2009 | 200,000,000 | 200,000,000 | 199,755,000 | -0.1225 | 99.8775 |
| 31398APF3 | FEDERAL NATL MTG ASSN | First Tier Security | 09/03/2009 | 125,000,000 | 125,000,000 | 124,837,375 | -0.1301 | 99.8699 |
| 31398APF3 | FEDERAL NATL MTG ASSN | First Tier Security | 09/03/2009 | 250,000,000 | 250,000,000 | 249,674,750 | -0.1301 | 99.8699 |
| | | | | **5,635,000,000** | **5,635,000,000** | **5,625,404,660** | | |

Exhibit C-2

The Reserve
A Tradition of Financial Innovation™

**Schedule of Investments** (November 18, 2008 Unaudited) **Fund Name: US GOVERNMENT**

| DESCRIPTION | MATURITY DATE* | EFFECTIVE MATURITY DATE | COUPON RATE (%) | UNITS (US$) | PCT OF PORTFOLIO |
|---|---|---|---|---|---|
| **Fannie Mae** | | | | | |
| FANNIE MAE (FLOATING RATE) | 10/07/2009 | 01/07/2009 | 0.6200 | 200,000,000 | 3.15% |
| FANNIE MAE (FLOATING RATE) | 01/23/2009 | 01/23/2009 | 1.5600 | 200,000,000 | 3.15% |
| FEDERAL NATL MTG ASSN (FLOATING RATE) | 09/03/2009 | 12/03/2008 | 0.6100 | 375,000,000 | 5.91% |
| FEDERAL NATL MTG ASSN (FLOATING RATE) | 01/09/2009 | 01/09/2009 | 2.1000 | 875,000,000 | 13.80% |
| **Total Fannie Mae** | | | | **1,650,000,000** | **26.02%** |
| **Federal Farm Credit Bank - Floating Rate** | | | | | |
| FED FARM CREDIT (FLOATING RATE) | 03/11/2009 | 12/11/2008 | 1.5300 | 100,000,000 | 1.58% |
| FEDERAL FARM CR BKS (FLOATING RATE) | 02/23/2009 | 11/23/2008 | 1.5000 | 200,000,000 | 3.15% |
| FEDERAL FARM CR BKS CONS SYST (FLOATING RATE) | 03/17/2009 | 12/17/2008 | 2.0400 | 250,000,000 | 3.94% |
| FEDERAL FARM CREDIT BANK (FLOATING RATE) | 01/11/2010 | 01/11/2009 | 0.7200 | 235,000,000 | 3.71% |
| FEDERAL FARM CREDIT BANK (FLOATING RATE) | 11/16/2009 | 02/16/2009 | 1.0600 | 500,000,000 | 7.88% |
| **Total Federal Farm Credit Bank - Floating Rate** | | | | **1,285,000,000** | **20.26%** |
| **Federal Home Loan Bank** | | | | | |
| FED HOME LN BANK CONS BD (FLOATING RATE) | 01/28/2009 | 01/28/2009 | 0.8700 | 350,000,000 | 5.52% |
| FEDERAL HOME LN BK CONS DSC NT (ZERO COUPON RATE) | 11/19/2008 | 11/19/2008 | 0.0500 | 372,715,000 | 5.88% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 12/28/2009 | 12/28/2008 | 0.7200 | 250,000,000 | 3.94% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 11/23/2009 | 11/23/2008 | 2.6260 | 200,000,000 | 3.15% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 11/20/2009 | 11/20/2008 | 2.6300 | 200,000,000 | 3.15% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 10/28/2009 | 01/28/2009 | 0.6700 | 200,000,000 | 3.15% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 08/07/2009 | 02/07/2009 | 1.1200 | 250,000,000 | 3.94% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 04/21/2009 | 01/21/2009 | 1.6650 | 100,000,000 | 1.58% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 04/13/2009 | 01/13/2009 | 0.6700 | 100,000,000 | 1.58% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 02/20/2009 | 11/22/2008 | 2.1300 | 250,000,000 | 3.94% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 01/30/2009 | 01/30/2009 | 1.0600 | 500,000,000 | 7.88% |
| FEDERAL HOME LN BKS (FLOATING RATE) | 01/30/2009 | 01/30/2009 | 1.0600 | 200,000,000 | 3.15% |
| **Total Federal Home Loan Bank** | | | | **2,972,715,000** | **46.88%** |
| **Federal Home Loan Mortgage Corp** | | | | | |
| FEDERAL HOME LN MTG DISC NTS (FLOATING RATE) | 02/20/2009 | 11/20/2008 | 2.0200 | 100,000,000 | 1.58% |
| **Total Federal Home Loan Mortgage Corp** | | | | **100,000,000** | **1.58%** |
| **Investment Total** | | | | **6,007,715,000** | **94.73%** |
| **Cash Held at Custodian Bank+** | | | | **334,036,181** | **5.27%** |
| **Portfolio Total** | | | | **6,341,751,181** | **100.00%** |
| **Average Weighted Maturity** | | | | | **1 Days** |

+To determine the cash that is available for eventual distribution, add time deposits and securities maturing in one day to cash held at custodian bank. A negative cash number represents an overdrawn balance.

Exhibit C-2

The Reserve

A Tradition of Financial Innovation™

*The maturity dates of the securities in The Reserve funds are less than 397 calendar days, except for some U.S. government securities which may have maturity dates that are greater than 397 calendar days but less than 762 days. Securities that appear to have longer maturities are subject to maturity-shortening demand features, such as interest-adjustment provisions or floating interest rates. Maturity dates do not reflect reset or call dates.

Portfolio composition is subject to change at any time. If securities are sold with a delayed settlement date, the above portfolio listing will not reflect those securities. However, the securities are still assets of the fund and will continue to earn interest until the trade settles.

This data is unaudited and provided for informational purposes only and is not intended for trading purposes.

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in a money market fund. You should carefully consider the investment objectives, risks and charges and expenses of the Fund before investing. The Fund's Prospectus contains this and other information about the Fund. The Fund's Prospectus may be obtained by writing to The Reserve, 1250 Broadway, New York, New York 10001-3701 or by calling 1-800-637-1700 and pressing "0." You should read the Prospectus carefully before you invest.*

*This information is for the use of U.S. residents only. The investment products and services referred to should not be considered a solicitation to buy products or an offering of any investment products to investors residing outside the United States or to any person in any jurisdiction in which such offers, solicitations, purchases or sales would be unlawful under the securities or other applicable laws of such jurisdiction.*

*Resrv Partners, Inc., Distributor. Member FINRA. 11/08*

## Joint Statement by Treasury, Federal Reserve and the FDIC on Citigroup

11/23/2008

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hp-1287

**Washington, DC--** ***The U.S. government is committed to supporting financial market stability, which is a prerequisite to restoring vigorous economic growth. In support of this commitment, the U.S. government on Sunday entered into an agreement with Citigroup to provide a package of guarantees, liquidity access and capital.***

The U.S. government is committed to supporting financial market stability, which is a prerequisite to restoring vigorous economic growth. In support of this commitment, the U.S. government on Sunday entered into an agreement with Citigroup to provide a package of guarantees, liquidity access and capital.

As part of the agreement, Treasury and the Federal Deposit Insurance Corporation will provide protection against the possibility of unusually large losses on an asset pool of approximately $306 billion of loans and securities backed by residential and commercial real estate and other such assets, which will remain on Citigroup's balance sheet. As a fee for this arrangement, Citigroup will issue preferred shares to the Treasury and FDIC. In addition and if necessary, the Federal Reserve stands ready to backstop residual risk in the asset pool through a non-recourse loan.

In addition, Treasury will invest $20 billion in Citigroup from the Troubled Asset Relief Program in exchange for preferred stock with an 8% dividend to the Treasury. Citigroup will comply with enhanced executive compensation restrictions and implement the FDIC's mortgage modification program.

With these transactions, the U.S. government is taking the actions necessary to strengthen the financial system and protect U.S. taxpayers and the U.S. economy.

We will continue to use all of our resources to preserve the strength of our banking institutions and promote the process of repair and recovery and to manage risks. The following principles guide our efforts:

- We will work to support a healthy resumption of credit flows to households and businesses.
- We will exercise prudent stewardship of taxpayer resources.
- We will carefully circumscribe the involvement of government in the financial sector.
- We will bolster the efforts of financial institutions to attract private capital.

**demonstrated needs and sound analysis, not fear and headlines. This is no small challenge, especially at a time when the focus is on domestic issues and when we face legitimate competing demands for resources.**

- **Third, don't let current efforts to stabilize the global economy detract from existing IFI priorities. The IFIs, and the MDBs in particular, have a mandate to promote poverty reduction and economic growth in all member countries, especially the poorest, and have a key role to play in the delivery of global public goods. That is why we cannot forget the importance of our support for financial windows such as IDA – the World Bank's financial arm for the poorest or the Clean Technology Fund, which is a new multilateral initiative housed at the World Bank to combat climate change by helping finance the deployment of commercially-available clean technology to the developing world.**
- **Fourth, make the case that functioning multilateral institutions are in the U.S. national interest. Skepticism of the IFIs, particularly in Congress, runs high. This administration has made a real effort to back up our words of support for the IFIs with deeds. The impressive track record of reforms is a credit to both our persistence and the ability of these institutions to adapt. This is not to say that the IFIs are perfect, rather it underscores the need to re-evaluate constantly their approaches to find out what works and what doesn't work. It does mean, however, that we need to fund them. Our arrears to almost all of these institutions have become ridiculous and it calls into question U.S. leadership. How can we add capital if we can't pay our existing bills? Why should the institutions accept U.S. led reforms if we don't financially support them? Will calls for multilateral solutions by the U.S. fall on deaf ears if we fail to make good on our commitments to these institutions?**

**Conclusion**

The United States must continue to lead on issues of institutional reform. This Administration has been a strong supporter of the IFIs, especially the concessional lending windows, as an effective tool for leveraging U.S. resources in promoting development and stability. And if you believe, as I strongly do, that our constructive engagement with the IFIs is in our own national interest, then we need to ensure that we are in a position to constructively support further reforms. This is no small challenge, but a challenge we must meet.

While I cannot speak the next administration I am confident they will continue to support and maintain U.S. credibility and influence at these institutions. This will require continued pressure on the institutions to make good on their commitments to enhance legitimacy, transparency and effectiveness. It will also require more prominent roles for emerging market economies (accompanied by emerging markets taking more responsibility within the global financial system). Finally, it will require that we are mindful that the actions we take today to address the crisis will have implications for the success of any future reforms.

# Assistant Secretary for International Affairs Clay Lowery Remarks

11/24/2008

HP-1288

***On International Financial Institution Reform at the Reinventing Bretton Woods Committee Conference on Building an International Monetary and Financial System for the 21st Century***

**New York - I want to thank the Reinventing Bretton Woods Committee for holding this conference on the International Financial System. Your timing couldn't be more impeccable. Just over a week ago, leaders from 20 of the world's largest advanced and emerging market countries – representing more than 85 percent of global economic output – met in Washington, D.C., to address the current crisis and lay the foundation for reforms that could help prevent a similar crisis in the future. The work plan that came out of the Summit on Financial Markets and the World Economy reflects strong consensus on three critical priorities:**

I want to thank the Reinventing Bretton Woods Committee for holding this conference on the International Financial System. Your timing couldn't be more impeccable. Just over a week ago, leaders from 20 of the world's largest advanced and emerging market countries – representing more than 85 percent of global economic output – met in Washington, D.C., to address the current crisis and lay the foundation for reforms that could help prevent a similar crisis in the future. The work plan that came out of the Summit on Financial Markets and the World Economy reflects strong consensus on three critical priorities:

- First, meaningful regulatory reforms are needed to address the root causes of the crisis. There is a growing recognition across major economies that global financial markets require national financial regulation to be as consistent as possible and not work at cross-purposes.
- Second, reform of the International Financial Institutions is needed to allow for greater participation of developing nations in order for these institutions to remain relevant.
- Third, we must avoid protectionism, push forward on further trade and investment liberalization, and implement other pro-growth policies.

In other words, we all must continue to take actions to stabilize our financial systems, promote economic growth, and assist each other and those less fortunate. I think of this as pragmatic as opposed to profound thinking, and I think of this as working on the plumbing and the carpentry as opposed to creating some grand international financial architecture that can grab a newspaper headline but can't be explained with any substance.

Given the sponsor and the context of this conference, I wanted to focus my comments on the reform and role of the International Financial Institutions, or "IFIs," in responding to the crisis. On the eve of a political transition in the United States, and amid a global financial crisis, it's worth evaluating the IFIs' abilities to respond to the current crisis and their roles going forward. I offer these remarks having been closely engaged with the IFIs from the time I first arrived at Treasury in 1994, and now having been part of two Presidential Administrations that prioritized work with the IFIs and periodically pushed for various reforms.

Instead of focusing on Bretton Woods II or some grand agenda, I thought it would be helpful to present a framework for these institutions in a world in which access to capital will be strained, private sector finance of trade and infrastructure will be lacking, and economic growth will deteriorate. In this Framework, I'll focus on some of the variables of reform that we have tried to implement over the last few years as well as the constant lessons that we simply need to continue to remember. I hope this will help in considering how we should think of the IFIs in the current storm and what the damage and implications we will likely need to face as that storm continues and as it subsides.

**Reform Variables**

Upon taking office, the Bush administration developed a set of priorities for IFI reform to preserve the institutions' relevance and improve their effectiveness. In particular, the United States insisted that the IFIs focus more clearly on their respective missions and demonstrate measurable efficacy in doing so. For instance, our reform agenda has taken these institutions to new frontiers on measuring and achieving development results, securing grant finance and debt relief for the poorest countries, enhancing accountability and transparency, and improving their identification of emerging vulnerabilities and macro-financial linkages.

At the International Monetary Fund (IMF) for example, the United States led the charge to improve country surveillance. Former Treasury Under Secretary for International Affairs Tim Adams made headlines when he charged the Fund with being "asleep at the wheel" when it came to IMF exchange rate surveillance. This emphasis was related to a growing vulnerability – global financial imbalances – that is one of the underlying causes of today's problems. Today, thanks to the efforts of Tim and others, the IMF is making progress toward more consistent and candid assessments of its members' exchange rate policies. However, more work remains to be done to ensure the Fund is willing to make tough judgments and increase its candor and clarity on external stability and exchange rate issues. This is not about pointing fingers, it is about calling the situation as you see it.

At the Multilateral Development Banks (MDBs) we have championed development effectiveness by urging the banks to provide resources to better performing countries, to monitor and measure the effectiveness of projects, and to expand the transparency of their operations. At the same time, we've pushed them to provide sustainable finance through grants and debt relief to the poorest countries, recognizing that high debt levels are a key obstacle to development. I think it is arguable that these initiatives in support of the more important efforts of many of the poorest countries to implement sounder economic policies has made the fallout from the past year's turmoil much better than it otherwise would have been.

The United States has been a leading voice on governance, making clear that these institutions must reform to remain relevant. Reform will not be easily accomplished, but as witnessed by the Summit, there is a growing recognition that governance issues are central to institutional legitimacy. Emerging markets must have a seat at the table to reflect more adequately the changing economic weights in the world economy. We fought hard to increase emerging markets' representation at the IMF, and we while we supported the recent quota reform, it should have been even more ambitious. We've also strongly advocated a smaller and more focused IMF Board and called on other nations to work with us to reduce the number of chairs from 24 to 20 by 2012, with no loss in the number of emerging market or developing country chairs. And just last week, Secretary Paulson called on the IFIs to explore the possibilities of moving toward non-resident boards. However, governance reform extends beyond the board room and must include more transparency and accountability at these institutions and better efforts to fight corruption.

**"Constant" Lessons**

We have been working on these initiatives for years, and I believe they have improved the way the IFIs do business. However, as the Summit underscored, there is more to do especially in the context of the current global financial crisis. Lessons are already emerging from the current crisis that will shape our approach and thinking going forward. As a policymaker, I'd suggest there are a few constant lessons that we need to keep reminding ourselves of:

- **Globalization is here to stay. An increasingly globalized economy has fueled growth and opportunity all over the world; globalization cannot, and should not, be reversed. This is a constant lesson**

**despite those who thought "global" imbalances were not really global or that economies had "decoupled" from each other. A reversion into protectionist barriers remains a call of the Sirens.**

- **Always look around the corner. I'd like to think that our focus on financial sector issues and on macro-financial linkages would have pointed out today's vulnerabilities before they happened. Instead, I now know that either because of lack of incentives or lack of creativity (or both), we failed to recognize and adequately address vulnerabilities in the global financial system. The lesson is that policymakers, regulators and the private sector have a responsibility to ask themselves what could go wrong, and to be receptive to warnings of potential vulnerabilities.**
- **Finance is linked invariably to the human condition. When financial systems don't work, individuals pay the price: whether it's the entrepreneur who can't get the start-up capital needed to open a business, the small business owner who can't get the working capital needed to meet payroll, or the student who can't get a loan to pay for college. The results can be the loss of wealth, loss of jobs, and even the loss of dignity. Make no mistake, a well-functioning financial system – here in the United States and throughout the world – is central to opportunity and prosperity.**
- **Effective multilateral institutions are in our national interest. The United States has a wide international reach; however, we can't do it alone. As the current crisis demonstrates, we need multilateral approaches. To use the words of a former boss, if they didn't exist, we would have to invent them. To support this lesson, we need to make sure the IFIs' remain focused on their respective roles, are equipped to fulfill those roles, and are well understood by their shareholders and the public.**

An increasingly globalized economy has fueled growth and opportunity all over the world; globalization cannot, and should not, be reversed. This is a constant lesson despite those who thought "global" imbalances were not really global or that economies had "decoupled" from each other. A reversion into protectionist barriers remains a call of the Sirens. I'd like to think that our focus on financial sector issues and on macro-financial linkages would have pointed out today's vulnerabilities before they happened. Instead, I now know that either because of lack of incentives or lack of creativity (or both), we failed to recognize and adequately address vulnerabilities in the global financial system. The lesson is that policymakers, regulators and the private sector have a responsibility to ask themselves what could go wrong, and to be receptive to warnings of potential vulnerabilities. When financial systems don't work, individuals pay the price: whether it's the entrepreneur who can't get the start-up capital needed to open a business, the small business owner who can't get the working capital needed to meet payroll, or the student who can't get a loan to pay for college. The results can be the loss of wealth, loss of jobs, and even the loss of dignity. Make no mistake, a well-functioning financial system – here in the United States and throughout the world – is central to opportunity and prosperity. The United States has a wide international reach; however, we can't do it alone. As the current crisis demonstrates, we need multilateral approaches. To use the words of a former boss, if they didn't exist, we would have to invent them. To support this lesson, we need to make sure the IFIs' remain focused on their respective roles, are equipped to fulfill those roles, and are well understood by their shareholders and the public.

**Addressing the Current Global Economic Crisis**

Knowing some of the variables of reform and the constants does not necessarily provide us a sound equation for how to think the IFIs should deal with today's crisis. In fact, we do not have the luxury of waiting for further reforms to take hold. The emerging market and low income countries are now facing the knock-on effects of a crisis that first metastasized in the industrialized world, and it is the IFIs that are the frontline responders to the fallout from the crisis. So while reform is critical, we need to think about how to best mobilize these institutions to address the current situation. With this backdrop, I offer a set of principles for IFI engagement in the current environment:

- **First, money can't fix problems that require changes in policy. Determining the underlying cause of economic weakness, and the necessary corrective action to address the weakness, should be done in advance of sending money out the door. Lending large sums of money before assessing**

**root causes and the appropriate policy responses can damage the IFIs by reducing the capital available to assist other countries in need and by undermining the institutions' credibility. It also damages the affected country in the long run by allowing it to delay needed policy reforms, only to deal with problems at a later date with potentially greater costs.**

- **Second, countries must work better together and with multilateral institutions to deal with the current and future crises. We've already seen effective action taken by a number of countries to deal with the current crisis, including coordinated central bank actions to support global liquidity and ensure the proper functioning of the global payments system. In just the last few weeks, balance of payments crises have required large bilateral support packages that are appropriate and individually unique (i.e., Iceland, Hungary). This model is likely to be more prevalent in the future. IFI lending cannot, and does not need to, keep up with global capital flows, but their programs should provide the framework for additional bilateral and official support in order to ensure that conditionality and policy messages are well coordinated. In addition, IFI engagement should be catalytic, contributing to greater stability and encouraging continued private sector activity.**
- **Third, IFIs should be flexible and creative in using the existing capital and instruments at their disposal. When financial assistance is the best response to address economic weakness, the IFIs should look first to their existing toolkit to determine if they already have adequate resources to respond. The IMF currently has over $150 billion in available lending capacity to meet members' needs without resorting to another $50 billion in contingent resources, while the World Bank has the capacity to nearly triple current lending to $35 billion per year for the next three. These resources are available now and it has been encouraging to see these institutions as well as the IDB and the EBRD demonstrate flexibility and step up their commitments. MDBs are also developing innovative ways to use existing tools to deliver assistance to countries in crisis, in particular by focusing on country financial sectors and potential shortfalls in trade finance. In addition, the IMF recently announced the establishment of the Short-Term Liquidity Facility, which is designed to help member countries that are facing temporary liquidity problems in the global capital markets.**

Determining the underlying cause of economic weakness, and the necessary corrective action to address the weakness, should be done in advance of sending money out the door. Lending large sums of money before assessing root causes and the appropriate policy responses can damage the IFIs by reducing the capital available to assist other countries in need and by undermining the institutions' credibility. It also damages the affected country in the long run by allowing it to delay needed policy reforms, only to deal with problems at a later date with potentially greater costs.

**Looking Ahead: Taking the Long View**

However, as past crises have shown, our policy response to the current crisis will have far ranging consequences in the distant and not-so-distant future. I see four implications of the principles just outlined:

- **First, we cannot afford to repeat past lend-and-forgive cycles. To the extent additional IFI lending is the appropriate response to the crisis, and in some instances this will be the case, there will be implications: Is additional support consistent with a country's debt sustainability? Do we run the risk of undermining a country's long-term development by creating a dependence on external financing and technical expertise? Does additional IFI assistance run the risk of crowding out private sector activity? The answers to these questions are not static and will require constant re-evaluation and re-assessment of the effectiveness of IFI assistance.**
- **Second, we must remember the IFIs are taxpayer-supported institutions. Calls for capital increases – that is to say budgetary appropriations to enlarge IFI balance sheets – should be based on**

## Statement by Secretary Henry M. Paulson, Jr. on Geithner Nomination

11/24/2008

HP-1289

**Washington --** ***The Treasury Department issued the following statement from Secretary Henry M. Paulson, Jr. on the President-Elect's announcement today that Timothy Geithner will be nominated for Treasury Secretary in the next administration:***

The Treasury Department issued the following statement from Secretary Henry M. Paulson, Jr. on the President-Elect's announcement today that Timothy Geithner will be nominated for Treasury Secretary in the next administration:

"I have the highest regard for Tim – his judgment and creativity have been critical to designing and implementing the necessary actions we've taken to protect and strengthen our financial system. I have great confidence in his understanding of markets, his judgment and leadership, and his ability to meet the challenges that lie ahead."

# Treasury Announces Extension of Temporary Guarantee Program for Money Market Funds

11/24/2008

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HP-1290

**Washington- *The U.S. Treasury Department today announced an extension of Treasury's Temporary Guarantee Program for Money Market Funds until April 30, 2009 to support ongoing stability in this market.***

- The U.S. Treasury Department today announced an extension of until April 30, 2009 to support ongoing stability in this market.

All money market funds that currently participate in the program and meet the extension requirements are eligible to continue to participate. Funds that currently are not participating in the program are not eligible to enter the program. The temporary guarantee program will continue to provide coverage to shareholders up to amounts that they held in participating money market funds as of the close of business on September 19.

Funds must make a program extension payment and submit the extension notice by December 5. The amount of the payment for the extension period will be based on a fund's net asset value as of September 19. For funds that had a market-based net asset value greater than or equal to 99.75 percent of their stable share price, the payment will be 0.015 percent, 1.5 basis points, multiplied by the number of shares outstanding on September 19. For funds that had a market-based net asset value less than 99.75 percent of their stable share price but greater than or equal to 99.50 percent of their stable share price, the payment will be 0.022 percent, 2.2 basis points, multiplied by the number of shares outstanding on September 19.

While the program protects the accounts of investors, each money market fund makes the decision to sign-up for the program. Investors cannot sign-up for the program individually. The program currently covers over $3 trillion of assets.

The Secretary may extend the program until September 18, 2009; however, no decision has been made to extend the program beyond April 30, 2009. If a fund does not participate in this extension, that fund will not be eligible to participate in any potential further extension of the program.

**-30-**

**REPORTS**

- Extension Notice

UNITED STATES DEPARTMENT OF THE TREASURY

TEMPORARY MONEY MARKET FUND GUARANTEE PROGRAM

**Extension Announcement**

**And Instructions for Making Program Extension Participation Payment**

The Secretary of the Treasury has elected to extend Treasury's Temporary Guarantee Program for Money Market Funds (the "Program") on the terms stated in this Extension Announcement. **Only Funds that currently participate in the Program are eligible to participate in the Program Extension Period as defined in the Guarantee Agreement entered into with respect to each Fund participating in the Program (the "Guarantee Agreement").** Capitalized terms used in this Extension Announcement have the same meanings assigned to such terms in the Guarantee Agreements.

There are four types of Guarantee Agreements under the Program: the Guarantee Agreement, the Guarantee Agreement (Single Fund), the Guarantee Agreement (Stable Value), and the Guarantee Agreement (Stable Value Single Fund), all of which are dated as of September 19, 2008. The Guarantee Agreement (Single Fund) and the Guarantee Agreement (Stable Value Single Fund) are referred to in this Extension Notice as "Single Fund Agreements." Funds participating under the Guarantee Agreement (Stable Value) and the Guarantee Agreement (Stable Value Single Fund) are referred to in this Extension Notice as "Stable Value Funds."

## I) TERMS OF THE EXTENSION PERIOD

The terms of the extension are as follows:

1. Program Extension Period. The Program Extension Period shall begin on December 19, 2008 (the "Program Extension Date") and the new Termination Date shall be April 30, 2009. The Program may be extended by the Secretary of the Treasury beyond the new Termination Date in the Secretary's sole and absolute discretion. No decision has been made with respect to whether the Program will be extended beyond the new Termination Date.

2. Program Extension Participation Payment. The Program Extension Participation Payment with respect to each Fund shall be an amount equal to:

   (a) 0.00015 multiplied by the Fund Designated Asset Base, if the Fund's Market-Based NAV is greater than or equal to $0.9975 (or, in the case of Stable Value Funds, the Report Value) on September 19, 2008, as determined at the time of the determination, in accordance with Rule 22c-1, of the Fund's final NAV for such date; or

   (b) 0.00022 multiplied by the Fund Designated Asset Base, if the Fund's Market-Based NAV is less than $0.9975 (or, in the case of Stable Value Funds, the Report Value) but greater than or equal to $0.995 (or the Guarantee Threshold Value in the case of Stable Value Funds) on September 19, 2008, as determined at the time of the determination, in accordance with Rule 22c-1, of the Fund's final NAV for such date.

If the Fund has multiple classes of shares ("Share Classes"), the applicable percentage of the Program Extension Participation Payment shall be determined on a class-by-class basis.

## II) CONDITIONS FOR PARTICIPATION IN THE EXTENSION PERIOD

In order for a Fund to continue to participate in the Program, the Fund must meet certain conditions, including the following:

(a) No Guarantee Event shall have occurred on or before the Program Extension Date;

(b) The Market-Based NAV of the Fund on the Program Extension Date shall be at least $0.995 (or, in the case of a Stable Value Fund, the Guarantee Threshold Value); and

(c) The Board, including a majority of its members who are not an interested person as determined under the 1940 Act, shall have determined, among other things, that the Fund's continued participation in the Program is in the best interests of the Fund and its shareholders.

In addition, the Fund or Share Class must have been participating in the Program at the time of this announcement. A Fund that is not currently party to a Guarantee Agreement executed by the Treasury (or a Share Class that is not identified on such an Agreement) is not eligible to participate in the Program Extension Period. Funds in this category include, without limitation: (1) Funds (or Share Classes) organized after September 19, 2008; (2) Funds that did not apply to participate in the Program before the deadline for submitting Guarantee Agreements to the Treasury (generally, October 8, 2008; in the case of Stable Value Funds, October 10, 2008); and (3) Funds that applied to participate in the Program but did not meet the conditions for participation as determined by the Treasury.

An Investment Company may elect to remove a Fund or Share Class from coverage under the Program. If the Investment Company elects to remove a Fund or Share Class from the Program, that Fund or Share Class will not be eligible to participate in further extensions of the Program, if any.

In addition, in order to participate in the Program Extension Period, a Fund must follow the procedures summarized below.

## III) PROCEDURE FOR CONTINUED PARTICIPATION IN THE PROGRAM

1. General. The Investment Company (or the Fund in the case of a Single Fund Agreement) must deliver a Program Extension Notice, a Program Extension Participation Payment, and a Bring-Down Notice in accordance with the procedures specified hereunder.

2. Submission Instructions. All notices and documents required to be submitted to continue to participate in the Program must be submitted by email to the address below. While the Treasury will confirm receipt by email, the Treasury will not return a countersigned document. The email must contain a scanned copy of the manually executed notice or document in portable document format (pdf). The email address for emailing the documents is as follows:

moneymarketfundsguaranteeprogram@do.treas.gov

Note that the email must be no greater than 25MB in order to be accepted by the Treasury's email server. Documents sent by mail, facsimile, or other means will not be accepted.

3. Notwithstanding Section 3(c)(ii) of the Guarantee Agreement (or Section 3(c)(iv) in the case of a Single Fund Agreement), an Investment Company (or a Fund in the case of a Single Fund Agreement) shall have until **11:59 p.m. Washington, DC time on December 5, 2008** to deliver to the Treasury the executed Program Extension Notice and the Program Participation Payment. Any Program Extension Notice or Program Participation Payment received after this time will not be accepted, and the Funds identified in the Program Extension Notice will not be eligible to participate in the Program Extension Period.

4. Program Extension Notice. Forms of the Program Extension Notice applicable to each type of Guarantee Agreement are attached to this notice as Exhibit A. The following instructions should be followed in completing and submitting the Program Extension Notice.

(a) Insert the date.

(b) Insert the Investment Company's SEC 1940 Act registration number.

(c) Insert the name of the Trust or Corporation, and the jurisdiction and form of organization in the appropriate spaces in the first paragraph.

(d) Complete the signature block.

(e) If applicable, attach Annex A in Excel Format, listing the Funds that would continue to participate in the Program. **Only Funds that are currently participating in the Program and are eligible to continue to participate in the Program should be listed on Annex A.** The Investment Company may elect to remove Funds from coverage under the Program by not including them on Annex A.

(f) The Investment Company (or the Fund in the case of a Single Fund Agreement) and Investment Adviser(s) must execute the Program Extension Notice. Officers for the

Investment Company (or the Fund in the case of a Single Fund Agreement) and the Investment Adviser(s) who are authorized to bind the companies must fill out and sign the signature blocks.

NOTE: In completing Annex A, the following information should be provided with respect to a Fund with multiple Share Classes:

(i) The name of the Fund;

(ii) In lieu of the EDGAR series identifier, the EDGAR class identifier for each class; and

(iii) The information required by Annex A separately for each class.

**No other changes may be made to the Program Extension Notice.**

5. Program Extension Payment.

(a) In order to participate in the Program Extension Period, an Investment Company (or a Fund in the case of a Single Fund Agreement) must pay the applicable Program Extension Participation Payment (as set forth in Section I of this Extension Announcement) at the time the Program Extension Notice is delivered.

(b) The Program Extension Participation Payment must be made by Fedwire to the Treasury following the instructions in Exhibit B of the Guarantee Agreement (a copy of which is attached hereto as Exhibit C).

(c) The Program Extension Notice will not be effective until this payment is made to the Treasury.

(d) Any Program Extension Participation Payment received after **11:59 p.m. Washington, DC time on December 5, 2008** will not be accepted, and the Funds for which the late Program Extension Participation Payment was tendered will not be eligible to participate in the Program Extension Period.

6. Bring-Down Notice. Forms of the Bring-Down Notice applicable to each type of Guarantee Agreement are attached to this notice as Exhibit B.

(a) The Investment Company (or the Fund in the case of a Single Fund Agreement) and Investment Adviser(s) must execute the Bring-Down Notice.

(i) The Investment Company (or the Fund in the case of a Single Fund Agreement) must accurately complete the information required by inserting the date, the name of the Trust or Corporation, the jurisdiction and form of organization, and the Investment Company's SEC 1940 Act registration number in the appropriate spaces. No other changes may be made to the Bring-Down Notice.

(ii) Officers for the Investment Company (or the Fund in the case of a Single Fund Agreement) and the Investment Adviser(s) who are authorized to bind the companies must fill out and sign the signature blocks.

(b) The Investment Company (or the Fund in the case of a Single Fund Agreement) shall have until **11:59 p.m. Washington, DC time on December 29, 2008** to deliver to the Treasury the executed Bring-Down Notice.

**If you have any questions concerning the execution of the documents or the payment of the Program Extension Participation Payment, you may contact the Department of the Treasury at (202) 927-9770. If you have questions for the Securities and Exchange Commission, you may contact them at 202-551-6774.**

# Exhibit A: Forms of Program Extension Notice

1. Guarantee Agreement: Form of Program Extension Notice
2. Guarantee Agreement (Single Fund): Form of Program Extension Notice
3. Guarantee Agreement (Stable Value): Form of Program Extension Notice
4. Guarantee Agreement (Stable Value Single Fund): Form of Program Extension Notice

## Guarantee Agreement:

## Form of Program Extension Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

______________________[1]

This Program Extension Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ______________________________________________________________________________

______________________________________________________________________________,[2]

a ____________________________________________________________________[3] (the "Guarantee Agreement"), with respect to the money market funds listed in Annex A thereto. Capitalized terms used herein have the meaning assigned to such terms in the Guarantee Agreement.

The Investment Company, on behalf of the money market funds listed in the updated Annex A attached to this Notice, hereby notifies the Treasury that it will continue to participate in the Program.

1. The Investment Company, with respect to each Participating Fund, represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

2. The Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

3. The Board, including a majority of the members who are not "interested persons" of the Investment Company as determined under the 1940 Act, has determined with respect to

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

each Participating Fund that the Participating Fund's continued participation in the Program is in the best interests of the Participating Fund and its shareholders.

4. The Investment Company, with respect to each Participating Fund, and the Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, each represent and warrant that on the date hereof, each Fund's Market-Based NAV is not less than $0.995.

______________________________[4]

Investment Company Act Registration
No. 811-______________

By:______________________________
Name:____________________________
Title:____________________________
Date of Execution: ________________

Address for Notices:

______________________________

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[4] [*Insert Name of Investment Company*]

______________________________[5]

Investment Adviser for

______________________________[6]

By:______________________________
Name:______________________________
Title:______________________________
Date of Execution: ____________________

Address for Notices:

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[5] [*Insert Name of Adviser*]

[6] [*Insert Name of Fund*]

# Guarantee Agreement (Single Fund):

## Form of Program Extension Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

______________________[1]

This Program Extension Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ________________________________________________________________

________________________________________________________________,[2]

a ________________________________________________________________[3] (the "Guarantee Agreement"). Capitalized terms used herein have the meaning assigned to such terms in the Guarantee Agreement.

The Fund hereby notifies the Treasury that it will continue to participate in the Program.

1. The Fund represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

2. The Investment Adviser represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

3. The Board, including a majority of the members who are not "interested persons" of the Fund as determined under the 1940 Act, has determined that the Fund's continued participation in the Program is in the best interests of the Fund and its shareholders.

4. The Fund and the Investment Adviser each represent and warrant that on the date hereof, each Fund's Market-Based NAV is not less than $0.995.

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

______________________________________[4]

Investment Company Act Registration
No. 811-____________

By:____________________________________
Name:__________________________________
Title:__________________________________
Date of Execution: ____________________

Address for Notices:

______________________________________

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[4] [*Insert Name of Fund*]

______________________________[5]

Investment Adviser for
______________________________[6]

By:______________________________
Name:______________________________
Title:______________________________
Date of Execution: ____________________

Address for Notices:

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[5] [*Insert Name of Adviser*]

[6] [*Insert Name of Fund*]

## Guarantee Agreement (Stable Value):

## Form of Program Extension Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

______________________[1]

This Program Extension Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ____________________________________________________________

____________________________________________________________[2],

a ____________________________________________________________[3] (the "Guarantee Agreement"), with respect to the money market funds listed in Annex A thereto. Capitalized terms used herein have the meaning assigned to such terms in the Guarantee Agreement.

The Investment Company, on behalf of the money market funds listed in the updated Annex A attached to this Notice, hereby notifies the Treasury that it will continue to participate in the Program.

1. The Investment Company, with respect to each Participating Fund, represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

2. The Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

3. The Board, including a majority of the members who are not "interested persons" of the Investment Company as determined under the 1940 Act, has determined with respect to

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

each Participating Fund that the Participating Fund's continued participation in the Program is in the best interests of the Participating Fund and its shareholders.

4. The Investment Company, with respect to each Participating Fund, and the Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, each represent and warrant that on the date hereof, each Fund's Market-Based NAV is not less than the Guarantee Threshold Value.

______________________________________ [4]

Investment Company Act Registration
No. 811-____________

By:_________________________________
Name:_______________________________
Title:_______________________________
Date of Execution: ___________________

Address for Notices:

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[4] [*Insert Name of Investment Company*]

____________________[5]

Investment Adviser for

____________________[6]

By:____________________
Name:____________________
Title:____________________
Date of Execution: ____________________

Address for Notices:

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____________________

5 [*Insert Name of Adviser*]

6 [*Insert Name of Fund*]

# Guarantee Agreement (Stable Value Single Fund):

## Form of Program Extension Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

____________________[1]

This Program Extension Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ________________________________________________________________________________________________,[2] a ______________________________[3] (the "Guarantee Agreement"). Capitalized terms used herein have the meaning assigned to such terms in the Guarantee Agreement.

The Fund hereby notifies the Treasury that it will continue to participate in the Program.

1. The Fund represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

2. The Investment Adviser represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement are true and correct on and as of the date of this Notice with the same force and effect as though made on and as of the date of this Notice.

3. The Board, including a majority of the members who are not "interested persons" of the Fund as determined under the 1940 Act, has determined that the Fund's continued participation in the Program is in the best interests of the Fund and its shareholders.

4. The Fund and the Investment Adviser each represent and warrant that on the date hereof, each Fund's Market-Based NAV is not less than the Guarantee Threshold Value.

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

______________________________________[4]

Investment Company Act Registration
No. 811-____________

By:____________________________________
Name:__________________________________
Title:___________________________________
Date of Execution: ______________________

Address for Notices:

______________________________________

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______________________________________

______________________________________

______________________________________

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______________________________________

[4] [*Insert Name of Fund*]

______________________________[5]

Investment Adviser for

______________________________[6]

By:______________________________
Name:______________________________
Title:______________________________
Date of Execution: ______________________

Address for Notices:

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______________________________

5 [*Insert Name of Adviser*]

6 [*Insert Name of Fund*]

Exhibit B: Forms of Bring-Down Notice

1. Guarantee Agreement: Form of Bring-Down Notice

2. Guarantee Agreement (Single Fund): Form of Bring-Down Notice

3. Guarantee Agreement (Stable Value): Form of Bring-Down Notice

4. Guarantee Agreement (Stable Value Single Fund): Form of Bring-Down Notice

# Guarantee Agreement:

## Form of Bring-Down Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

____________________[1]

This Bring-Down Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ______________________________________________________________________________________________________________________________________________________[2], a ______________________________________________[3] (the "Guarantee Agreement"), with respect to the money market funds listed in Annex A thereto. Capitalized terms used herein have the same meaning assigned to such terms in the Guarantee Agreement.

1. The Investment Company, with respect to each Participating Fund, represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

2. The Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

3. The Investment Company, with respect to each Participating Fund, and the Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, each represent and warrant that, on the Program Extension Date, each Fund's Market-Based NAV was not less than $0.995.

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

______________________________________[4]

Investment Company Act Registration
No. 811-____________

By:________________________________
Name:______________________________
Title:______________________________
Date of Execution: ____________________

---

[4] *[Insert Name of Investment Company]*

____________________________________[5]

Investment Adviser for
____________________________________[6]

By:____________________________________
Name:__________________________________
Title:__________________________________
Date of Execution: ______________________

5 [*Insert Name of Adviser*]

6 [*Insert Name of Fund*]

## Guarantee Agreement (Single Fund):

## Form of Bring-Down Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

____________________[1]

This Bring-Down Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ______________________________________________________________________________

______________________________________________________________________[2],

a ____________________________________________________________[3]

(the "Guarantee Agreement"). Capitalized terms used herein have the same meaning assigned to such terms in the Guarantee Agreement.

1. The Fund represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

2. The Investment Adviser represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

3. The Fund and Investment Adviser represent and warrant that, on the Program Extension Date, the Fund's Market-Based NAV was not less than $0.995.

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

______________________________[4]

Investment Company Act Registration
No. 811-____________

By:________________________________
Name:______________________________
Title:______________________________
Date of Execution: ____________________

---

[4] [*Insert Name of Fund*]

______________________________[5]

Investment Adviser for
______________________________[6]

By:______________________________
Name:____________________________
Title:_____________________________
Date of Execution: ___________________

[5] *[Insert Name of Adviser]*

[6] *[Insert Name of Fund]*

# Guarantee Agreement (Stable Value):

## Form of Bring-Down Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

____________________[1]

This Bring-Down Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ______________________________________________________________________________[2], a ______________________________________[3] (the "Guarantee Agreement"), with respect to the money market funds listed in Annex A thereto. Capitalized terms used herein have the same meaning assigned to such terms in the Guarantee Agreement.

1. The Investment Company, with respect to each Participating Fund, represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

2. The Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

3. The Investment Company, with respect to each Participating Fund, and the Investment Advisers, with respect to each Participating Fund to which it is an Investment Adviser, each represent and warrant that, on the Program Extension Date, each Fund's Market-Based NAV was not less than the Guarantee Threshold Value.

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

______________________________________[4]

Investment Company Act Registration
No. 811-____________

By:________________________________
Name:______________________________
Title:______________________________
Date of Execution: ____________________

4 [*Insert Name of Investment Company*]

Exhibit B: Guarantee Agreement (Stable Value)

_____________________________________[5]

Investment Adviser for
_____________________________________[6]

By:_____________________________________
Name:__________________________________
Title:___________________________________
Date of Execution: ______________________

[5] [*Insert Name of Adviser*]

[6] [*Insert Name of Fund*]

## Guarantee Agreement (Stable Value Single Fund):

## Form of Bring-Down Notice

To: The Department of the Treasury

Cc: The Securities and Exchange Commission

____________________[1]

This Bring-Down Notice is delivered under the Guarantee Agreement dated as of September 19, 2008 between the United States Department of Treasury and ________________________________________________

________________________________________________,[2]

a ____________________________________________[3] (the "Guarantee Agreement"). Capitalized terms used herein have the same meaning assigned to such terms in the Guarantee Agreement.

1. The Fund represents and warrants that the representations and warranties contained in Section 8 of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

2. The Investment Adviser represents and warrants that the representations and warranties contained in Sections 8(c), (d) and (e) of the Guarantee Agreement were true and correct on and as of the Program Extension Date with the same force and effect as though made on and as of the Program Extension Date.

3. The Fund and Investment Adviser represent and warrant that, on the Program Extension Date, the Fund's Market-Based NAV was not less than the Guarantee Threshold Value.

---

[1] [*insert Date*]

[2] [*insert name of Trust or Corporation*]

[3] [*insert jurisdiction and form of organization*]

________________________________________[4]

Investment Company Act Registration
No. 811-_____________

By:___________________________________
Name:________________________________
Title:_________________________________
Date of Execution: ______________________

[4] [*Insert Name of Fund*]

______________________________[5]

Investment Adviser for

______________________________[6]

By:______________________________
Name:____________________________
Title:____________________________
Date of Execution: ______________

[5] [*Insert Name of Adviser*]

[6] [*Insert Name of Fund*]

## Exhibit C: Payment Instructions

All Program Participation Payments should be made to the Treasury via Fedwire using the instructions exactly as indicated below.

| TYPE 1000 FUNDS TRANSFER MESSAGE TO TREASURY NYC | | |
|---|---|---|
| | TAG | |
| **TAG NAME** | **NUMBER** | **REQUIRED INFORMATION** |
| TYPE/SUBTYPE CODE | **(1,510)** | 1000 |
| AMOUNT | **(2,000)** | [INSERT AMOUNT OF PAYMENT] |
| SENDER FINANCIAL INSTITUTION | **(3,100)** | SENDING FINANCIAL INSTITUTION'S ROUTING and TRANSIT NUMBER AND BANK NAME |
| RECEIVER FINANCIAL INSTITUTION | **(3,400)** | 021030004 TREAS NYC |
| BENEFICIARY | **(4,200)** | D<br>20014918<br>ESF GUARANTEE PARTICIPATION PAYMENT |
| ORIGINATOR TO BENEFICIARY | **(6,000)** | [INSERT INVESTMENT COMPANY NAME] |
| INFORMATION | | [TOTAL NUMBER OF FUNDS] |

## Secretary Paulson to Provide EESA Update

11/24/2008

hp1291

Secretary Henry M. Paulson, Jr. will provide an update on implementation of the Emergency Economic Stabilization Act tomorrow in the Treasury Department Media Room at 10 a.m. (EST).

**Who Treasury Secretary Henry M. Paulson, Jr.**

Treasury Secretary Henry M. Paulson, Jr.

**What Update on Emergency Economic Stabilization Act**

Update on Emergency Economic Stabilization Act

**When Tuesday, November 25, 10 a.m. (EST)**

Tuesday, November 25, 10 a.m. (EST)

**Where Treasury Department**
**Media Room - 4121**
**1500 Pennsylvania Avenue**
**Washington, DC**

**Note Media without Treasury press credentials planning to attend should contact Treasury's Office of Public Affairs with the following information: name, Social Security number and date of birth.**

**Clearance contact: Courtney Forsell**
courtney.forsell@treasury.gov
**(202)622-2960**

Treasury Department Media Room - 4121 1500 Pennsylvania Avenue Washington, DCMedia without Treasury press credentials planning to attend should contact Treasury's Office of Public Affairs with the following information: name, Social Security number and date of birth.Courtney Forsell courtney.forsell@treasury.gov (202)622-2960

## Treasury Provides TARP Funds to Federal Reserve Consumer ABS Lending Facility

11/25/2008

*To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.*

hp-1292

**Washington--** ***The U.S. Treasury Department today announced it will allocate $20 billion to back a lending facility for the consumer asset backed securities market established by the Federal Reserve Bank of New York.***

The U.S. Treasury Department today announced it will allocate $20 billion to back a lending facility for the consumer asset backed securities market established by the Federal Reserve Bank of New York.

The asset backed securities market provides liquidity to financial institutions that provide small business loans and consumer lending such as auto loans, student loans, and credit cards. While ABS issuances in these categories were roughly $240 billion in 2007, issuance of consumer ABS declined precipitously in the third quarter of 2008 before essentially coming to a halt in October. Continued disruption in the ABS market could further deteriorate credit availability for consumers and increase the prospects for further deterioration in the economy generally.

This facility, the Term Asset Backed Securities Loan Facility, is intended to assist the credit markets in accommodating the credit needs of consumers and small businesses by facilitating the issuance of ABS and improving ABS market conditions. The underlying credit exposures of eligible securities initially must be newly or recently originated auto loans, student loans, credit card loans or small business loans guaranteed by the U.S. Small Business Administration. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

Under the new facility, the Federal Reserve Bank of New York will lend up to $200 billion on a non-recourse basis to holders of newly issued AAA-rated ABS for a term of at least one year. The Federal Reserve will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS. The U.S. Treasury Department will provide a $20 billion of credit protection to the Federal Reserve in connection with the facility, using its authorities in the Emergency Economic Stabilization Act of 2008. The attached term sheet describes the basic terms and operational details of the facility.

**-30-**

**REPORTS**

- Term Sheet

**Term Asset-Backed Securities Loan Facility (TALF)**
**Terms and Conditions**[1]

### *Facility*

The TALF will be a Federal Reserve credit facility authorized under section 13(3) of the Federal Reserve Act. The TALF is intended to assist the credit markets in accommodating the credit needs of consumers and small businesses by facilitating the issuance of asset-backed securities (ABS) and improving the market conditions for ABS more generally.

The Federal Reserve Bank of New York (FRBNY) will make up to $200 billion of loans under the TALF. TALF loans will have a one-year term, will be non-recourse to the borrower, and will be fully secured by eligible ABS. The U.S. Treasury Department will provide $20 billion of credit protection to the Federal Reserve in connection with the TALF, as described below.

### *Eligible Collateral*

Eligible collateral will include U.S. dollar-denominated cash (that is, not synthetic) ABS that have a long-term credit rating in the highest investment-grade rating category (for example, AAA) from two or more major nationally recognized statistical rating organizations (NRSROs) and do not have a long-term credit rating of below the highest investment-grade rating category from a major NRSRO.

All or substantially all of the credit exposures underlying eligible ABS must be newly or recently originated exposures to U.S.-domiciled obligors. The underlying credit exposures of eligible ABS initially must be auto loans, student loans, credit card loans, or small business loans guaranteed by the U.S. Small Business Administration. The set of permissible underlying credit exposures of eligible ABS may be expanded later to include commercial mortgage-backed securities, non-Agency residential mortgage-backed securities, or other asset classes. The underlying credit exposures must not include exposures that are themselves cash or synthetic ABS.

Originators of the credit exposures underlying eligible ABS (or, in the case of SBA-guaranteed loans, the ABS sponsor) must have agreed to comply with, or already be subject to, the executive compensation requirements in section 111(b) of the Emergency Economic Stabilization Act of 2008.

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[1] The Federal Reserve reserves the right to review and make adjustments to these terms and conditions – including size of program, pricing, loan maturity, and asset and borrower eligibility requirements – consistent with the policy objectives of the TALF.

Eligible collateral for a particular borrower must not be backed by loans originated by the borrower or by an affiliate of the borrower.

### *Eligible Borrowers*

All U.S. persons that own eligible collateral may participate in the TALF. A U.S. person is a natural person that is a U.S. citizen, a business entity that is organized under the laws of the United States or a political subdivision or territory thereof (including such an entity that has a non-U.S. parent company), or a U.S. branch or agency of a foreign bank.

### *Transaction Structure*

Credit extensions under the TALF will be in the form of non-recourse loans secured by eligible collateral. Substitution of collateral during the term of the loan will not be allowed. TALF loans will have a one-year term, with interest payable monthly. The term of TALF loans may be lengthened later if appropriate. TALF loans will not be subject to mark-to-market or re-margining requirements.

Any remittance of principal or interest on eligible collateral must be used immediately to pay interest due on, or reduce the principal amount of, the TALF loan.

### *Haircuts*

Collateral haircuts will be established by the FRBNY for each class of eligible collateral. Haircuts will be determined based on the price volatility of each class of eligible collateral.

### *Pricing and Allocation*

The FRBNY will offer a fixed amount of loans under the TALF on a monthly basis. TALF loans will be awarded to borrowers each month based on a competitive, sealed bid auction process. Each bid must include a desired amount of credit and an interest rate spread over one-year OIS. The FRBNY will set minimum spreads for each auction.

The FRBNY will reserve the right to reject or declare ineligible any bid, in whole or in part, in its discretion. In this regard, the FRBNY will develop and implement procedures to identify for further scrutiny potentially high-risk ABS that a borrower proposes to pledge to the FRBNY under the TALF.

The FRBNY will assess a non-recourse loan fee at the inception of each loan transaction.

### *Roles of Primary Dealers and Clearing Banks*

Each borrower must use a primary dealer, which will act as agent for the borrower, to access the TALF and must deliver eligible collateral to a clearing bank.

### *Role of the U.S. Treasury Department*

The FRBNY will create an SPV to purchase and manage any assets received by the FRBNY in connection with any TALF loans. The FRBNY will enter into a forward purchase agreement with the SPV under which the SPV will commit, for a fee, to purchase all assets securing a TALF loan that are received by the FRBNY at a price equal to the TALF loan amount plus accrued but unpaid interest. The U.S. Treasury's Troubled Assets Relief Program (TARP) will purchase subordinated debt issued by the SPV to finance the first $20 billion of asset purchases. If more than $20 billion in assets are purchased by the SPV, the FRBNY will lend additional funds to the SPV to finance such additional purchases. The FRBNY's loan to the SPV will be senior to the TARP subordinated loan, with recourse to the SPV, and secured by all the assets of the SPV. All cash flows from SPV assets will be used first to repay principal and interest on the FRBNY senior loan until the loan is repaid in full. Next, cash flows from assets will be used to repay principal and interest on the TARP subordinated loan until the loan is repaid in full. Residual returns from the SPV will be shared between the FRBNY and the U.S. Treasury.

### *Executive Compensation Requirements*

Originators of the credit exposures underlying eligible ABS (or, in the case of SBA-guaranteed loans, the ABS sponsor) must have agreed to comply with, or already be subject to, executive compensation standards consistent with the U.S. Treasury's TARP guidelines applicable to its Capital Purchase Program.

### *Termination Date*

The facility will cease making new loans on December 31, 2009, unless the Board agrees to extend the facility.

## Secretary Paulson Remarks on Consumer ABS Lending Facility

11/25/2008

HP-1293

**Washington--** ***Today the Treasury and the Federal Reserve are announcing a facility to finance the issuance of non-mortgage asset-backed paper in order to support lending to consumers and small businesses that is vital to our economy.***

Today the Treasury and the Federal Reserve are announcing a facility to finance the issuance of non-mortgage asset-backed paper in order to support lending to consumers and small businesses that is vital to our economy.

The consumer asset backed securities market is a source of liquidity to financial institutions that provide federally-guaranteed small business loans and consumer lending such as auto loans, student loans and credit cards. Issuance of ABS in these areas reached $240 billion in 2007, but credit market stresses led to a steep decline in the third quarter of 2008, and the market essentially came to a halt in October. As a result, millions of Americans cannot find affordable financing for their basic credit needs. And credit card rates are climbing, making it more expensive for families to finance everyday purchases. This lack of affordable consumer credit undermines consumer spending and as a result weakens our economy.

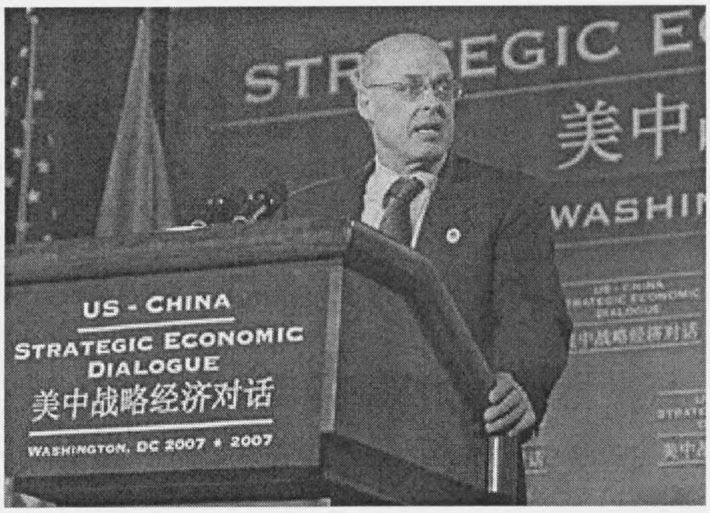
To address this need and support the return of consumer lending, the Treasury will provide $20 billion of credit protection to the Federal Reserve in connection with its $200 billion Term Asset Backed Securities Loan Facility. By providing liquidity to issuers of consumer asset backed paper, the Federal Reserve facility will enable a broad range of institutions to step up their lending, enabling borrowers to have access to lower cost consumer finance and small business loans. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

Throughout this financial market turmoil, our focus has been to stabilize the system and support the lending that is vital to our economy. Toward that end we've taken steps to strengthen the capital position of our financial institutions, to stabilize the system and to enable them to increase lending to American consumers and businesses. Similarly, we've acted to stabilize the GSEs and to purchase GSE mortgage-backed securities, in order to increase the availability of affordable mortgage credit throughout our nation. Today's initiative to support the small business and consumer finance market is similarly aimed at increasing the availability of affordable lending. Today's announcement by the Fed that it will purchase direct debt obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and also mortgage backed securities guaranteed by Fannie, Freddie and Ginnie Mae, underscores our support for the housing market. Nothing is more important to getting through this housing correction than the availability of affordable mortgage finance.

It will take time to work through the difficulties in our markets and our economy, and new challenges will continue to arise. I and my regulatory colleagues are committed to using all the tools at our disposal to preserve the strength of our financial institutions and stabilize our financial markets, to minimize the spillover into the rest of the economy.

## U.S. and China to Hold Meeting of the Strategic Economic Dialogue

11/26/2008




Treasury Secretary Henry M. Paulson, Jr. will lead a U.S. delegation to China next week for the fifth Cabinet level meeting of the SED. Presidents Bush and Hu established the SED in 2006 to provide a focused and effective framework for addressing economic issues of mutual concern. The meeting will focus on strategies for managing macroeconomic risks and promoting balanced economic growth, strengthening cooperation in energy and environment, confronting the challenges to trade, promoting open investment environments, and furthering international economic cooperation

**LINKS**

- Media Advisory
- More on the SED

HP-1294

## Treasury Designates Mugabe Regime Cronies

11/25/2008

HP-1295

**Washington, DC--**The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) today designated four Mugabe regime cronies and a number of entities owned or controlled by two of them. The financial and logistical support they have provided to the regime has enabled Robert Mugabe to pursue policies that seriously undermine democratic processes and institutions in Zimbabwe.

"The Mugabe regime continues to resist the call of the Zimbabwean people to loosen its corrupt and violent hold on power," said OFAC Director Adam J. Szubin. "The United States supports the people of Zimbabwe in their struggle to achieve a political and economic system built on fairness and transparency rather than patronage and self-dealing."

Today's designations include John Bredenkamp, a well-known Mugabe insider involved in various business activities, including tobacco trading, gray-market arms trading and trafficking, equity investments, oil distribution, tourism, sports management, and diamond extraction. Through a sophisticated web of companies, Bredenkamp has financially propped up the regime and provided other support to a number of its high-ranking officials. He also has financed and provided logistical support to a number of Zimbabwean parastatal entities.

The following entities owned or controlled by John Bredenkamp also are designated: Alpha International (Private) Ltd., Breco (Asia Pacific) Ltd., Breco (Eastern Europe) Ltd., Breco (South Africa) Ltd., Breco (U.K.) Ltd., Breco Group, Breco International, Breco Nominees Ltd., Breco Services Ltd., Corybantes Ltd., Echo Delta Holdings Ltd., Kababankola Mining Company, Masters International Ltd., Masters International, Inc., Piedmont (UK) Limited, Raceview Enterprises, Scottlee Holdings (Pvt) Ltd., Scottlee Resorts, Timpani Ltd., and Tremalt Ltd.

Also designated today is Muller Conrad Rautenbach (a.k.a. Billy Rautenbach). Billy Rautenbach is a Zimbabwean businessman who has maintained close relations with the Mugabe regime. He has provided support to senior regime officials during Zimbabwe's intervention in the Democratic Republic of the Congo and also provided logistical support for large-scale mining projects in Zimbabwe that benefit a small number of corrupt senior officials there. Today's designations include an entity owned and controlled by Billy Rautenbach, Ridgepoint Overseas Developments Limited.

In addition, OFAC is designating Nalinee Joy Taveesin, a Thai businesswoman who has facilitated a number of financial, real-estate, and gem-related transactions on behalf of Grace Mugabe, Gideon Gono, and a number of other Zimbabwean Specially Designated Nationals (SDNs). Ironically, Nalinee Taveesin has participated in a number of initiatives on corruption and growth challenges in Africa and Southeast Asia while secretly supporting the kleptocratic practices of one of Africa's most corrupt regimes.

Finally, OFAC is designating Mahmood Awang Kechik, a Malaysian urologist and one of Robert Mugabe's physicians and business advisors. Kechik has used his medical practice to conceal the ultimate destination of medical equipment shipped to Zimbabwe, and he has transacted secretly with a number of SDNs, including Gideon Gono and Constantine Chiwenga, to generate wealth for these regime officials and the Government of Zimbabwe.

Today's action was taken pursuant to Executive Order 13469, which targets, among others, individuals and entities who provide financial and other support to the Government of Zimbabwe and Zimbabwean SDNs. As a result of Treasury's action, any assets of the individuals and entities designated today that are within U.S. jurisdiction must be frozen. Additionally, U.S. persons are prohibited from conducting financial or commercial transactions with these individuals or entities.

## U.S., New Zealand to Sign Protocol to Tax Treaty

11/25/2008

HP-1296

**Washington, DC**--Treasury Deputy Secretary Robert M. Kimmitt will join New Zealand Ambassador to the United States Roy Ferguson next week to sign a new protocol updating the tax treaty between the United States and New Zealand.

The following event is open to the press:

**Who**
Deputy Secretary Robert M. Kimmitt

**What**
Signing of Protocol to U.S.-New Zealand Tax Treaty

**When**
4:00 p.m. (EST), December 1, 2008

**Where**
Treasury Department
Diplomatic Reception Room (3311)
1500 Pennsylvania Avenue, NW
Washington, D.C.

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

## Paulson to Deliver Update on Economy and Markets

11/26/2008

HP-1297

Secretary Henry M. Paulson, Jr. will deliver an update on the economy and the markets Monday at the Fortune 500 Forum in Washington. The forum brings together business leaders, policy experts and government representatives to discuss the current and future business climate.

**Who**
Secretary Henry M. Paulson, Jr.

**What**
Update on the Economy and Markets

**When**
3:00 p.m. (EST) Monday, December 1

**Where**
The Ritz-Carlton
Ritz-Carlton Ballroom
1150 22nd Street, NW
Washington, D.C.

**Note**
Press must RSVP to Daniel Kile at 212-522-3640 or daniel_kile@timemagazine.com.

# Paulson to Deliver Remarks on U.S.-China Strategic Economic Dialogue

11/26/2008

HP-1298

Secretary Henry M. Paulson, Jr. will deliver remarks on the U.S.-China Strategic Economic Dialogue to the World Affairs Council of Washington, D.C. in advance of the upcoming SED meeting in China. The SED, established by Presidents Bush and Hu, is a framework for managing our bilateral economic relationship on a long-term strategic basis.

**Who**
Secretary Henry M. Paulson, Jr.

**What**
Remarks on the U.S.-China Strategic Economic Dialogue

**When**
12:00 p.m. (EST) Tuesday, December 2

**Where**
Willard Intercontinental Hotel
The Grand Ballroom
1401 Pennsylvania Avenue, NW
Washington, D.C.

**Note**
Press must RSVP to Mark Fernando at (202) 293-1051 or mfernando@worldaffairsdc.org.

# OFAC Identifies Entities Owned or Controlled by the Government of Iran

11/26/2008

HP-1299

The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) has identified the National Iranian Oil Company (a.k.a. NIOC), Naftiran Intertrade Company Ltd. (a.k.a. NICO), and Naftiran Intertrade Co. Sarl as entities owned or controlled by the Government of Iran.

The Iranian Transaction Regulations (ITR) include an appendix that contains a non-exhaustive list of entities determined by OFAC to be owned or controlled by the Government of Iran. The appendix can be accessed through OFAC's website: http://www.treasury.gov/offices/enforcement/ofac/programs/iran/iran.shtml (see "Overview of Sanctions"). OFAC is adding National Iranian Oil Company, Naftiran Intertrade Company Ltd., and Na ftiran Intertrade Co. Sarl to this appendix. Certain entities listed in this appendix may be subject to further sanctions under other sanctions programs.

To date, the appendix has listed only financial institutions that were determined to be owned or controlled by the Government of Iran. The inclusion of the National Iranian Oil Company, Naftiran Intertrade Company Ltd., and Naftiran Intertrade Co. Sarl marks the first non-financial institutions to be added to the appendix. Moving forward, OFAC will continue to list both financial institutions and other entities that are determined to be owned or controlled by the Government of Iran.

While the ITR do not impose an asset freeze, they do prohibit most commercial and financial transactions with entities owned or controlled by the Government of Iran, regardless of where such entities are located or incorporated. Most transactions with any branches or subsidiaries of these entities are also prohibited, regardless of where such branches or subsidiaries are located and incorporated.

This appendix serves as a tool to assist U.S. persons in complying with the ITR. The identified entities are considered to be owned or controlled by the Government of Iran when they operate not only from the locations listed in the appendix, but also from any other location. The ITR prohibitions apply to all entities owned or controlled by the Government of Iran, regardless of where they are located or incorporated, even if they are not listed in the appendix. The prohibitions in the ITR also apply to transactions with entities located in Iran that are not owned or controlled by the Government of Iran.

Naftiran Intertrade Company Ltd. is a subsidiary of the National Iranian Oil Company that is registered in the United Kingdom and located in Jersey, Channel Islands, United Kingdom. NICO, in turn, has a subsidiary, called Naftiran Intertrade Co. (NICO) Sarl, which is incorporated and located in Switzerland. The ITR prohibit most transactions with NIOC, NICO and NICO Sarl, in any locations worldwide, because these companies are entities owned or controlled by the Government of Iran.

The Iranian Transactions Regulations, 31 C.F.R. part 560, define the term "Government of Iran," in section s 560.304, to include any "entity owned or controlled by the Government of Iran," a term which is itself defined in section 560.313. The relevant ITR language can be accessed through the following link: http://www.access.gpo.gov/nara/cfr/waisidx_07/31cfr560_07.html

## Prepared Remarks of Assistant Secretary for Terrorist Financing Patrick O'Brien

12/1/2008

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HP-1300

***On Treasury's Approach Toward Combating Kleptocracy***

**Washington, DC**--Good afternoon, everyone. I thank you all for your active participation in today's first-ever, U.S. government-wide anti-kleptocracy outreach event to the NGO community.

We come here today as policymakers, stakeholders and concerned citizens in pursuit of a common interest: stemming the ills of kleptocracy that continue to plague so many parts of the world. Just over two years ago, President Bush announced the *National Strategy To Internationalize Efforts Against Kleptocracy*. That strategy explicitly recognized the need for a comprehensive global approach to combat high-level, large-scale public corruption, including an emphasis on the role of private sector actors in denying financial safe haven to kleptocrats. Stated differently, the U.S. strategy recognizes that government must engage the private sector and NGO community in developing and implementing a comprehensive anticorruption policy.

One of the primary goals of today's event is to provide a venue for open and cross-cutting discussion of kleptocracy-related issues that we encounter on a daily basis. We have heard formal presentations from both U.S. government officials and NGO representatives whose work focuses on combating corruption, as well as discussion from representatives of a range of public-sector, non-governmental, and academic institutions. This afternoon, we will engage in break-out sessions to facilitate discussion on a number of key issues in combating kleptocracy, including:

- addressing those sectors most vulnerable to the threat of kleptocracy;
- pursuing kleptocrats and their enabling networks and recovering stolen assets through law enforcement and other means;
- providing technical assistance to address systemic vulnerabilities and build capacity to counter kleptocracy; and
- promoting multilateral and global support for counter-kleptocracy efforts.

I am confident that these discussions will facilitate or strengthen partnerships among several of the organizations represented here in combating the ongoing threat of kleptocracy that we all face.

In keeping with the conference's aim of promoting collaborative efforts in combating kleptocracy, my remarks today will focus on explaining how we at Treasury are working together with our interagency partners, our international counterparts, and with the private sector and the NGO community to combat the threat of kleptocracy. But first, it is important to recognize the substantial challenges we face and understand why our collective anti-kleptocracy efforts are needed.

**What is kleptocracy, and why is it important?**

Although kleptocracy is defined as large-scale corruption by senior government officials, it generally requires extensive support networks of advisors, attorneys, accountants, family members and close associates, as well the deliberate exploitation or complicity of corporations, businesses, and other legal entities. Depending on the context, kleptocracy represents either the politicization of criminality or, even worse, the criminalization of an entire political class.

Cultures of corruption deserve our condemnation on their own merits because they undercut development and good governance, breed criminality, and sow mistrust in democracy and the rule of law within their given societies. But within the sphere of international relations, kleptocracy takes on the added dimension, and increased importance, of a threat to international peace and security.

How does kleptocracy threaten U.S. national security? Left to its own devices, a kleptocratic political class takes little or no interest in the well-being of its population. When its greed combines with legal privilege and a robust security apparatus, what generally results is a marginalized majority beset by poverty and desperation. This absence of economic and political opportunity invites broader problems, potentially including civil conflict, terrorism, and long-term regional instability.

In recent decades, we have also witnessed how profit-driven political classes have internationalized the problem of kleptocracy by taking advantage of globalized markets, advanced technologies, and networks of middlemen. Brazen regimes have trafficked in persons, narcotics, weapons of mass destruction, and other illicit materials, all in the name of padding bank accounts and preserving a stranglehold on society. Consequently, the U.S. anti-kleptocracy strategy represents Presidential-level recognition that corruption has created security threats of the highest magnitude.

**The need for a comprehensive interagency approach**

As our national anti-kleptocracy strategy highlights, the U.S. government has adopted a comprehensive public-sector approach to combat the transnational threats that stem from corruption. Before turning to the work of the Department of the Treasury, it is important to acknowledge the major anti-kleptocracy efforts that other U.S. government agencies are undertaking, including:

- The Department of State, which leads U.S. government collaboration with our international partners to promote the adoption and implementation of common standards against corruption;
- The Department of Justice, which prosecutes all federal corruption and money laundering offenses and enforces U.S. forfeiture laws to recover the proceeds of kleptocracy and other offenses;
- The Federal Bureau of Investigation, which addresses corruption around the world through investigations related to money laundering and to violations of the Foreign Corrupt Practices Act and other financial crimes;
- U.S. Immigration and Customs Enforcement, which combines international money laundering expertise, immigration and customs authorities, and extensive international investigative capabilities to combat corruption;
- The U.S. Agency for International Development, which maintains anticorruption programs around the world to assist partner countries in strengthening systems to resist corruption; and
- The Millennium Challenge Corporation, which provides large grants, or Compacts, to poorer countries that perform better than their peers on 17 indicators that rate commitment to Ruling Justly, Investing in People, and Economic Freedom.

These vital efforts contribute to an interagency approach that is greater than the sum of its parts. They are also essential to Treasury's specific role in combating kleptocracy.

**A financial component to every national security threat**

Treasury's approach to combating kleptocracy begins with an understanding that there is a financial component to every national security threat and that protecting the international financial system from all forms of illicit finance is a fundamental national security interest. Recognizing this, President Bush and Congress have given Treasury both the legal authorities and the resources necessary to make substantive contributions across the full spectrum of national security issues. I am proud to say that Treasury remains at the forefront among finance ministries worldwide in developing and applying financial authorities to both: (i) protect the international financial system from all forms of illicit financing, and (ii) identify and disrupt illicit financing networks that attempt to operate within the financial system.

Treasury's Office of Terrorism and Financial Intelligence, or TFI, is dedicated to advancing these twin interests. TFI's mission relies upon the constant support of the interagency community and directs the strategic approach that Treasury applies to combating national security threats, including kleptocracy.

**TFI's comprehensive strategic approach to combating illicit finance**

Treasury's fundamental approach to combating kleptocracy and other national security threats encompasses both systemic and targeted efforts. Our systemic efforts aim to promote transparency across the financial system, focusing particularly on those vulnerabilities that kleptocractic networks and other illicit financiers exploit to evade detection. Our targeted efforts rely upon such financial transparency in developing and applying targeted financial measures to identify and disrupt specific illicit financing networks. Taken together, these systemic and targeted elements of Treasury's strategic approach make it more difficult, more costly, and riskier for illicit financing networks to operate within the financial system and serve as an effective deterrent for those who would otherwise exploit the financial system for criminal purposes.

Effectively implementing systemic and targeted measures to combat illicit financing across the international financial system requires the ongoing support of not only the interagency community, but also the private sector and the international community. For these reasons, much of TFI's work involves engaging financial services industries, other non-governmental stakeholders, and international counterparts. Outreach and engagement are vital components of the comprehensive strategic approach that Treasury applies in combating all forms of illicit finance.

I would now like to explain how Treasury is applying all elements of this comprehensive strategic approach to the specific challenges of combating kleptocracy.

**Applying TFI's comprehensive approach to combat kleptocracy**

The effectiveness of TFI's approach to fighting any form of illicit financing requires that we understand the scope and character of the problem. In combating kleptocracy, TFI is working with the regulatory, law enforcement, and intelligence communities to provide, to the extent possible, a baseline assessment of the flow of kleptocracy assets, including: (i) vulnerabilities in the financial system that may be exploited by kleptocratic networks to move and store assets, and (ii) critical financing networks for klepocractic regimes. These analytical efforts inform, in turn, the systemic and targeted elements of TFI's strategy to combating kleptocracy.

**Systemic efforts**

TFI focuses its domestic systemic efforts to combat kleptocracy on three objectives, each benefitting from and helping to advance efforts to combat money laundering and other forms of illicit finance more broadly. These objectives include:

(i) Requiring financial institutions to identify and apply enhanced due diligence against private banking accounts held by or for the benefit of senior foreign political officials, commonly known as Politically Exposed Persons or PEPs;

(ii) Providing guidance with respect to suspicious activity reporting requirements for U.S. financial institutions regarding potential kleptocractic activity; and

(iii) Promoting the transparency of U.S. legal entities that may otherwise mask kleptocractic activities of PEPs in the financial system.

The Financial Crimes Enforcement Network, a bureau within TFI that is commonly referred to as FinCEN, administers the Bank Secrecy Act (BSA), which establishes a framework for the U.S. anti-money laundering and counter-terrorist financing (AML/CFT) regulatory regime. Pursuant to the BSA, FinCEN issues regulations that promote transparency across the U.S. financial system and facilitate the production of information useful to law enforcement and counter-terrorism authorities in combating money laundering and terrorist financing. Section 312 of the USA PATRIOT Act amended the BSA to specifically require, in part, U.S. financial institutions to conduct enhanced scrutiny of certain accounts maintained by or on behalf of PEPs and their immediate family members and close associates. On January 4, 2006, FinCEN issued a final rule implementing this provision. Notably, this final rule requires U.S. financial institutions to take reasonable steps to identify all nominal and beneficial owners of private banking accounts for purposes of applying enhanced scrutiny against those accounts in which a PEP is a nominal or beneficial owner. The purpose of such enhanced scrutiny is to detect and report transactions that may involve the proceeds of foreign corruption.

Domestically, FinCEN also helps systemically address the threat of kleptocracy by promoting more effective reporting of potential illicit activity by financial institutions. FinCEN has worked with law enforcement and regulatory partners to provide i nstructions for financial institutions on the best ways to highlight kleptocracy in Suspicious Activity Reports, thereby helping law enforcement more easily identify potential kleptocratic activity. These efforts include an advisory issued by FinCEN in April 2008 that provides additional guidance on suspicious activity reporting for foreign corruption and helps financial institutions understand how to proactively prevent PEPs from exploiting those vulnerabilities in the international financial system that allow them to disguise or otherwise facilitate illicit activities.

In collaboration with the interagency community, state governments and the private sector, Treasury is also pursuing a number of measures to prevent the kleptocratic and criminal abuse of legal entities in order to hide the proceeds of illicit crime or to mask illicit actors engaging in financial activity. Specifically, TFI is working with various partners to promote greater transparency of U.S. legal entities. These efforts include developing effective ways of identifying, verifying, collecting and disclosing beneficial ownership information of legal entities for purposes of combating money laundering and terrorist financing. These steps can significantly deter the use of U.S. legal entities to hide the proceeds of illicit activity, including kleptocracy, in the financial system.

Internationally, TFI and its interagency partners help lead efforts to promote transparency of the international financial system through ongoing work with global partners in the Financial Action Task Force, or FATF, and related multilateral organizations. These efforts include the development and implementation of international standards that require enhanced monitoring of accounts and transactions involving PEPs, as well as standards that require basic transparency for legal entities that can mask illicit actors and activities in the financial system. Treasury also supports the efforts of the Departments of State and Justice in developing and facilitating the effective implementation of international legal standards against kleptocracy, including the United Nations Convention Against Corruption and the Organization for Economic Cooperation and Development Anti-Bribery Convention.

**Targeted efforts**

Building upon this systemic approach, TFI is working with all elements of the national security community to develop and implement ways of calling attention to regimes of public corruption concern, including through certain jurisdictional sanctions programs. The President has included a corruption component in a number of sanctions programs administered by Treasury's Office of Foreign Assets Control, commonly referred to as OFAC, the office that administers and enforces the United States' economic sanctions programs. This authorizes OFAC to target directly those who improperly benefit from or assist in the public corruption of foreign government officials. Specifically, the President has included public corruption as a basis for designation in recent Executive orders targeting certain persons in Zimbabwe, Syria, Burma, and Belarus. In the most recent of these Executive Orders, for example, involving officials in Zimbabwe, the President delegated to the Treasury the authority to designate for blocking senior officials from the Government of Zimbabwe and others who are engaged, or have engaged, in activities facilitating public corruption. We hope to continue using this authority to combat kleptocratic regimes when appropriate and also aim to expand the scope and effectiveness of these measures by multi-lateralizing our sanctions whenever possible.

TFI is also working with its interagency partners to develop other ways to call attention to individuals and regimes of public corruption concern, including potentially through:

- *Section 314(a)* of the USA PATRIOT Act (Patriot Act), which enables Federal law enforcement agencies, through FinCEN, to reach out to more than 45,000 points of contact at more than 25,000 financial institutions to locate accounts and transactions of persons that may be involved in terrorism or money laundering, including laundering of kleptocractic assets; and
- FinCEN advisories, which FinCEN issues to U.S. financial institutions to alert them of specific illicit financing risks – including public corruption concerns – and to assist them in effectively applying risk-based controls to address these risks. These advisories also raise awareness of illicit financing risks and influence the corresponding application of risk-based controls in the international financial community.

Finally, I would like a take a moment to mention Treasury and broader U.S. government efforts, domestically and internationally, to develop initiatives that identify, track, and return kleptocratic assets to those who need them most. In 2003, Treasury helped lead a focused interagency effort to find, freeze, and repatriate Iraqi assets from around the world, and to find cash and assets within Iraq that were stolen and hidden by elements of the former Hussein regime. This worldwide hunt resulted in the freezing of nearly $6 billion in Iraqi assets outside of Iraq, the return of over $2.7 billion of those monies, and the recovery of over $1 billion in cash inside Iraq.

Treasury, together with our interagency partners, has also supported multinational efforts – initiatives like that of the World Bank's Stolen Asset Recovery Program (StAR) – that use a collaborative approach to finding and repatriating assets stolen by foreign officials and placed in the international financial system. In order to make these international targeted efforts a success, Treasury's Office of Technical Assistance works with TFI and the interagency community to provide technical assistance and training to foreign governments, aiming to enhance their ability to prevent, detect, investigate, and prosecute corruption.

**Outreach efforts**

Treasury has built upon the aforementioned systemic and targeted approaches by engaging in outreach to the private sector and non-governmental stakeholders. TFI's domestic work in this area includes FinCEN initiatives with the Bank Secrecy Act Advisory Group (BSAAG). Internationally, TFI has incorporated efforts to combat kleptocracy into private sector dialogues with the international banking and financial service industries in the Middle East and North Africa and in Latin America.

As one example of our outreach efforts in practice, FinCEN recently conducted an industry survey to help increase our understanding of how banks and other financial institutions identify and verify beneficial ownership. Due diligence in this context helps safeguard against fraud and credit risk and also helps address the misuse of business accounts that are opened to hold and move illicit proceeds. An account held in the name of a corporation or other legal entity can be used to disguise the beneficial owner, the person or persons who actually own or control the funds in the account. In the case of private banking accounts, U.S. financial institutions are required pursuant to Section 312 of the Patriot Act to undertake reasonable efforts to identify nominal and beneficial owners for among other purposes combating public corruption. We understand that financial institutions also undertake efforts to determine the nature of the business holding a commercial account and to identify the individuals who own or control the funds in the account in other contexts as well.

International private sector outreach is also important. Over the past few years, Treasury has facilitated a series of private sector dialogues linking the U.S. banking sector together with those from the Middle East/North Africa region and the Latin American region, with the support of relevant financial and regulatory authorities. These dialogues raise awareness of terrorist financing and money laundering risks, facilitate a better understanding of effective practices and programs to combat such risks, and strengthen implementation of effective AML/CFT controls. The implementation of effective AML/CFT controls regarding PEPs is a key issue in these dialogues. Discussions include the importance and challenges of implementing Section 312 of the Patriot Act as well as the relevant international standard (FATF Recommendation 6) that guides financial institutions in identifying and addressing risks of public corruption associated with PEPs.

Finally, Treasury is pursuing increased engagement with the NGO sector, including through events such as today's symposium. We hope that this symposium will help expand the NGO community's understanding of the relationship between combating corruption and our efforts to combat illicit finance more broadly. We also hope that it will help us develop greater support for the use of systemic and targeted measures against corruption. Ultimately, our multi-sector outreach will help us better understand and integrate the efforts that governments, the private sector, and the NGO community can undertake to help address problems that allow kleptocrats to exploit both the international financial system and the resources of their own people.

**Challenges moving forward**

Our efforts to combat kleptocracy have come a long way in the past decade. The U.S. government has identified kleptocracy as a national security threat and has developed a necessary comprehensive strategy to combat this threat. The evolution of TFI at Treasury has enabled us to contribute more effectively to this strategy, including through systemic and targeted financial measures, as well as through outreach to international counterparts, the private sector and the NGO community. These efforts have established a sound foundation for developing and applying financial authorities to combat kleptocracy.

Our focus now must be on facilitating implementation. Consistent with the standards championed by the UN and the FATF, all countries, including the U.S., need to strengthen their efforts towards three primary objectives:

(1) We must increase global public awareness of the threat posed by kleptocracy so that our efforts to combat this threat become a high priority for all;

(2) We must continue promoting implementation of the FATF's international standards to establish financial transparency and strong anti-money laundering regimes that protect our global financial system from abuse, including through implementation of standards requiring enhanced due diligence of PEP accounts to combat public corruption; and

(3) We must continue to develop and apply targeted initiatives that effectively identify kleptocratic regimes and networks.

The NGO community is a crucial partner in these efforts. Working together, we can raise awareness and secure greater support for the actions needed by all countries to combat kleptocracy. Forums like this will help build the consensus and capacity to do just that.

**REPORTS**

- Dep Asst Sec of State Verville Remarks

# THE FIGHT AGAINST KLEPTOCRACY

**Elizabeth G. Verville**
**Deputy Assistant Secretary of State for Crime, INL**

***Collaborative Efforts to Combat High-Level Corruption***
**Washington, DC**
**December 1, 2008**

Assistant Secretary O'Brien, Acting Assistant Attorney General Friedrich, colleagues:

I am pleased to participate in this important event to advance our joint efforts to prevent and combat high-level corruption. Thank you, Patrick, for bringing together so many of our private sector colleagues who work hand in hand with us all over the world to combat kleptocracy and, indeed, all forms of corruption. I am glad to see so many non-governmental organizations represented here today and hope this event gives renewed impetus to the fruitful collaborations we have with many of you.

***USG and State Department Interests and Efforts***

We do not need to elaborate to this audience the high costs of global corruption and the multiple ways that corruption undermines governments, threatens economies and the well-being of citizens in every country around the world, and greases the wheels of transnational organized crime and terrorism. Fighting corruption is a high US Government priority, both on foreign policy and national security grounds.

Since no country is immune from corruption and corrupt actors respect no borders, no country can successfully fight corruption alone. The State Department, with the help of our colleagues in other agencies, collaborates with our international partners on the bilateral, regional and global levels to promote the adoption and implementation of common standards and approaches against corruption.

Whereas little more than a decade ago corruption was a taboo subject, we now regularly cooperate through frank and open channels to bring corrupt actors to justice and deny them safe haven and the fruits of their corruption.

This cooperation produced the most comprehensive treaty to date, the United Nations Convention against Corruption, or "UNCAC," which has globalized the fight against corruption. Concluded in 2003, it already has 128 States Parties. The rapid pace of ratification or accession reflects the high degree of interest in the convention. The State Department is currently leading negotiations for the terms of reference for a new review mechanism.

The Convention establishes for the first time near global agreement on the legal framework countries need to adopt to fight and prevent corruption. Now, no longer do we have one country or set of countries telling others what they should be doing to combat corruption. For the first time we have agreed on standards, so the question becomes not what we should be doing but how well are doing in implementing our commitments and what help states parties might need.

Now that standards are in place, our focus is promoting and supporting implementation. To that end, the State Department works in three areas. We promote and participate in mechanisms that review and spur implementation of existing commitments. We support regional initiatives that promote policy dialogue and sharing of good practices. Finally, we fund technical assistance to help countries implement their commitments, including by reforming their legal frameworks and institutions and building the capacity of their officials. The Department works closely with other government agencies, along with regional and multilateral organizations, to support projects throughout the globe.

Working closely with the Justice and Treasury Departments, we have also supported implementation of UNCAC's Asset Recovery chapter, which provides a novel framework for international legal cooperation on recovery of the proceeds of corruption.

Prior to the negotiation of the UNCAC, the United States promoted the conclusion of a series of regional and subject matter-specific treaties. Each represented a significant advance in the development of multilateral standards on corruption, and the USG continues to promote their implementation. These networks provide reformers a forum in which to spur each other on, and serve as a platform for the exchange and consideration of good practices.

However, to be clear, corruption is not merely a matter for action by developing economies. Developed economies must show leadership and keep their own houses clean. We have also worked with Group of Eight partners since the 2003 Evian Summit to adopt a wide variety of commitments on G8 and individual actions to address corruption.

Finally, we also have tools to pursue individual kleptocrats, under the U.S. policy of denial of safe haven to corrupt officials, those who corrupt them, and the proceeds of their corruption. The State Department administers the application of Presidential Proclamation 7750, issued in January 2004, which establishes the authority for the U.S. to deny or revoke visas to corrupt officials and those who corrupt them, when we determine the corruption adversely affects the U.S. national interests.

***Role of Non-Governmental Partners***

Efforts to address corruption will never be as successful if they rely on the action of government alone. Successful reform requires the collaboration of government and civil society.

At the State Department, we maintain an active dialogue with U.S. and international non-governmental organizations on our policy initiatives and programs. In many instances their input has informed or enriched our policy formulation and implementation. In other instances, we have collaborated with NGOs to draw upon their expertise to deliver technical assistance to our partner countries.

As a matter of policy, we urge similar engagement, and the transparency that facilitates it, by other countries. In the various multilateral anticorruption fora in which we participate, we encourage sharing of information and an appropriate role for civil society groups. These principles are reflected in the UNCAC, as well.

We hope that this collaboration will continue and deepen. To that end, we welcome the dialogue that this conference is intended to facilitate. I hope that the discussions today are not only reinforcing the collaboration we have enjoyed to date, but also identifying new areas in which we can work together in our shared long-term effort to fight corruption.

## Secretary Paulson Remarks on the U.S. Economy and Financial System

12/1/2008

HP-1301

**Washington-** Good afternoon. Thank you for the opportunity to provide an update on the current state of the U.S. economy, our implementation of the financial rescue package and strategies for use of the remaining TARP funds.

Today we continue to work through a severe financial crisis. While we are making progress, the journey ahead will continue to be a difficult one. But I have confidence that we are pursuing the right strategy to stabilize the financial system and support the flow of credit into our economy. The new authorities Congress provided in October dramatically expanded the tools available to the federal government to address the needs of our system. As I and my fellow regulators stated clearly at the time, we now have a set of tools - new authorities in addition to our existing ones- that we can deploy in creative combinations to maximize their impact on our system. And we have taken significant collaborative actions that demonstrate that strategy in action.

This consistent effort to strengthen our financial institutions so they can support our economy is critical to our progress through the current economic downturn. Strong financial institutions and a stable financial system will smooth the path to recovery and an eventual return to prosperity.

The root of this financial turmoil is the housing correction that began and accelerated throughout 2007. As home prices have declined and foreclosures have risen, housing-related assets have been hit particularly hard. Fifteen months ago the housing correction spilled over into the financial sector, pushing the banking system into stress. Consequently, the overall economy has suffered. Third quarter GDP this year showed negative 0.5 percent growth. The unemployment rate has risen to a level not seen in 15 years, with a loss of 240,000 jobs in October alone. Data released last week showed that through September, home prices in 10 major cities had fallen 19 percent over the previous year, demonstrating that the housing correction has not abated. And as the economy slows further, it threatens to prolong the housing correction.

There is no single action the Federal Government can take to end the financial market turmoil and the economic downturn. In these extraordinary times, we must instead focus on developing the most effective combination of our tools to further stabilize our financial system and speed the process of recovery.

### Financial System Recovery Efforts

We have implemented several programs aimed at improving the flow of credit to businesses and consumers, so they can spend and invest and restore our economy.

Most significantly, we devoted $250 billion to increasing the capital of our banks. A stronger capital base enables banks to take losses as they write down or sell troubled assets. Stronger capitalization is also essential to increasing lending which, although difficult to achieve during times like this, is essential to economic recovery.

Treasury has received hundreds of applications from the regulators, and hundreds more are under review by the regulators. To date we have purchased preferred shares in 52 institutions, putting $150 billion in additional capital into the financial system. And we will work through the remaining applications in the coming weeks and months.

We have announced the terms for participation for most non-publicly traded banks, another important source of credit in our economy. Regulators are already receiving many applications from private banks and are reviewing and processing those now.

In a powerful joint statement on November 12 th, our banking regulators have emphasized that the extraordinary government actions taken to stabilize and strengthen the banking system are not merely one-sided; all banks – not just those participating in the Capital Purchase Program – have benefited, so they all also have responsibilities in the areas of lending, dividend and compensation policies, and foreclosure mitigation. We strongly support this regulatory initiative.

We expect banks to increase their lending as a result of these efforts and it is important that they do so. This lending won't materialize as fast as any of us would like, but it will happen much, much faster as confidence is restored as a result of having used the TARP to stabilize our system and to increase the capital in our banks.

As we all know, the non-bank financial sector is a critical source of finance for the consumer spending that fuels our economy. Consumer credit is critical for many households as they consider purchasing a car, new appliances, or other big ticket items. Like other forms of credit, the availability of affordable consumer credit depends on ready access to a liquid and affordable secondary market – in this case, the asset backed credit market. Recent credit market stresses essentially brought this market to a halt in October. As a result, millions of Americans cannot find affordable financing for their basic credit needs. And credit card rates are climbing, making it more expensive for families to finance everyday purchases. The Federal Reserve and the Treasury last week announced an aggressive program to support the normalization of credit markets and the availability of affordable consumer credit to support economic recovery.

To support the return of consumer lending, the Treasury will provide $20 billion in TARP resources to back a Federal Reserve facility that will provide liquidity to issuers of consumer asset backed paper, enabling a broad range of institutions to step up their lending, and enabling borrowers to have access to lower cost consumer finance and small business loans. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

This consumer lending facility is one example of the creative combination of federal government authorities to ease a major obstruction to the flow of credit into our economy. The actions taken last week to support Citigroup similarly demonstrate the creative combination of tools to most effectively strengthen our financial institutions and confidence in our system.

We are actively engaged in developing additional programs to strengthen our financial system so that lending flows into our economy. When these programs are ready for implementation, we will discuss them with the Congress and the next Administration.

We continue to look at additional capital strategies, and as we do so we will assess the impact of the first capital program, and use this information to evaluate the size and focus of an additional program in light of existing economic and market conditions.

And we are continuing to examine potential foreclosure mitigation ideas that may be an appropriate and effective use of TARP resources. This Administration has used a variety of authorities to reduce avoidable foreclosures, through HUD programs, through the FDIC's program with IndyMac, through our support and leadership of the HOPE NOW Alliance, and through the new GSE servicer guidelines announced November 11 th that will set a new standard for the entire industry for streamlined modification procedures.

An important complement to those guidelines was the GSEs' announcement on November 20 th that they will suspend all foreclosures for 90 days. The foreclosure suspension will give homeowners and servicers time to utilize the new streamlined loan modification program and make it possible for more families to work out terms to stay in their homes.

And of course, as we consider potential new TARP programs, we must also maintain flexibility and firepower for this Administration and the next, to address new challenges as they arise.

As I have said for some time, the housing correction is at the root of our economic and market difficulties. The most important thing we can do to mitigate foreclosures and progress through the housing correction is to reduce the cost of mortgage finance, so more families can afford to buy a home, and so homeowners can refinance into more affordable mortgages. The actions we have taken to stabilize and strengthen Fannie Mae and Freddie Mac, and through them to increase the flow of mortgage credit have insulated mortgage rates from the rapid increases and fluctuations in the cost of other credit. But given that we have essentially guaranteed Fannie Mae and Freddie Mac securities, the rates on those securities – and corresponding mortgage rates – have not come down as much as we may have hoped. The Federal Reserve's announcement that it will purchase $100 billion in GSE debt and half a trillion dollars in GSE mortgage backed securities should have a strongly positive impact on the cost of mortgage finance. And we continue to look for additional ways to make mortgage credit more affordable, which will stimulate purchases, help to stabilize prices and end this housing correction.

**Conclusion**

Until the financial crisis is behind us, we must remain vigilant, ready to respond and to manage unpredictable events as they occur. Our first priority is on recovery. We work every day fully aware of our awesome responsibility to the American people who depend on the financial system to save for college and retirement, for financing homes, cars and companies. I am confident that we will work through this difficult period, and opportunity and prosperity will again flourish. Thank you.

## Statement by Deputy Secretary Robert M. Kimmitt following Meeting of G-8 Finance Ministers

5/19/2007

HP-1302

***Werder (Havel), Germany--The G-8 Finance Ministers met today to help prepare for the Leaders' Summit in Heiligendamm. We covered a wide range of important topics for the international monetary system, led by the German Presidency and our very able chair, Minister Steinbrück. I also had the opportunity to meet with many of colleagues, including from Africa, on a bilateral basis.***

The G-8 Finance Ministers met today to help prepare for the Leaders' Summit in Heiligendamm. We covered a wide range of important topics for the international monetary system, led by the German Presidency and our very able chair, Minister Steinbrück. I also had the opportunity to meet with many of colleagues, including from Africa, on a bilateral basis.

As always, the global economic outlook and prospects for the U.S. economy were in the foreground. The global economy continues its strong performance –indeed, the strongest in three decades. I informed my colleagues that our fiscal deficit continues to decline and the U.S. economy is making the transition to a sustainable growth path. While the economy grew modestly in the first quarter, we are confident it will return toward trend over the year. We see evidence that housing is stabilizing and that rising delinquencies in the sub prime mortgage market have not spread more generally. Inflation remains contained and the job market is strong.

One of the issues I was keen to raise with the G-8 was the ongoing need for open trade and investment climates in our countries. The United States continues to push for an ambitious outcome to the Doha Round. The United States also has a longstanding commitment to economic openness to empower individuals and to generate economic opportunities and prosperity for all. In statements last week by President Bush and Secretary Paulson, the United States has strongly reaffirmed that commitment.

Foreign firms in the U.S. alone employ more than 5 million workers and account for almost 6 percent of our GDP. At the same time, rising protectionist sentiment – both at home and abroad – in the fields of trade and investment is worrisome. With the accumulation of large financial resources in many governmental coffers around the world, some of which are in turn being recycled into FDI abroad, protectionist pressures could become more acute. The G-8, individually and collectively, must seek policies that demonstrate the benefits from open trade and investment, while avoiding the lost jobs and opportunities that would result from increased protectionism.

We discussed our common objective to promote a thriving and competitive hedge fund industry as part of a growing global financial system while maintaining investor protection and promoting financial stability. We were briefed today by the Financial Stability Forum, and I commend the Forum's approach to hedge funds in the global markets. Private pools of capital, including hedge funds, have contributed significantly to the efficiency of capital markets. Recognizing the important role of these private pools of capital, the President's Working Group on FinancialMarkets issued principles and guidelines to further enhance vigilance and market discipline. Price discovery, liquidity, and risk dispersion are vital components in this effort, as are maintaining investor protection and promoting financial stability.

As we learned during the emerging market crises of the 1990s, many developing countries faced large national balance sheet vulnerabilities because they lacked domestic capital markets and could not borrow in their own currencies. The G-8 this year placed on its agenda the issue of developing local currency bond markets in emerging market economies. This is a good issue for the G-8 because there is a wealth of experience in our countries that can be deployed, in conjunction with the good work of the International Monetary Fund and World Bank, to help emerging markets develop more robust financial markets and achieve more durable growth and financial stability. I am pleased to announce that today we endorsed an action plan for developing local bond markets in emerging market economies and developing countries. The action plan maps out concrete measures to be taken in six areas: market infrastructure, derivatives and swap markets, institutional investor base, technical assistance, information availability, regional initiatives and less developed countries.

I was pleased to be able to join in the discussion of good financial governance in Africa at last night's outreach dinner with our colleagues from Cameroon, Ghana, Mozambique, Nigeria, and South Africa. Good governance is absolutely critical for economic development. I would like to highlight just one of these issues, which is maintaining sustainable debt levels in the poorest countries. Official lending activities throughout the world, particularly in Africa, threaten the hard-won gains from recent debt relief initiatives. It is critical that both borrowers and creditors agree on an approach to debt sustainability that prevents the reemergence of debt distress.

We discussed our commitments to improve energy efficiency and security, and to address climate change issues through actions that accelerate the development of clean energy technologies without undermining the economic growth that will be necessary to deploy those technologies. I highlighted the United States' commitment to improving energy efficiency and security through such efforts as President Bush's Twenty in Ten initiative.

Finally, we remain engaged in strengthening the international framework against illicit finance, and developing our national authorities and capabilities to take effective economic and financial action against the global threats of WMD proliferation and terrorism. We maintain strong support for the Financial Action Task Force's efforts to guide implementation of the financial provisions of,WMD-related UN Security Council resolutions (UNSCRs), and to consider the threat of WMD proliferation finance more broadly. We agreed on the need to invest the resources required to identify and economically sanction the individuals and entities within WMD proliferation and terrorism support networks, in accordance with various UNSCRs.

Thank you.

# United States, New Zealand Sign Protocol to Income Tax Treaty

12/1/2008

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hp-1303

The Treasury Department announced today that Deputy Secretary Robert M. Kimmitt and New Zealand's Ambassador to the United States Roy Ferguson signed a protocol updating the current income tax treaty between the United States and New Zealand.

In a ceremony held at the Treasury Department, the two officials signed a Protocol that brings the existing tax treaty into closer conformity with current U.S. tax treaty policy. The new agreement provides for the elimination of source-country taxation of certain direct dividends, and interest paid to banks and other financial enterprises when the payer of the interest is not a related party. The new protocol also reduces the existing treaty's limit on taxation of cross-border payments of royalties to five percent.

The new protocol introduces a number of technical updates to the existing treaty, and also contains comprehensive and modern rules regarding limitation on benefits, non-discrimination and exchange of information.

The signed protocol is attached.

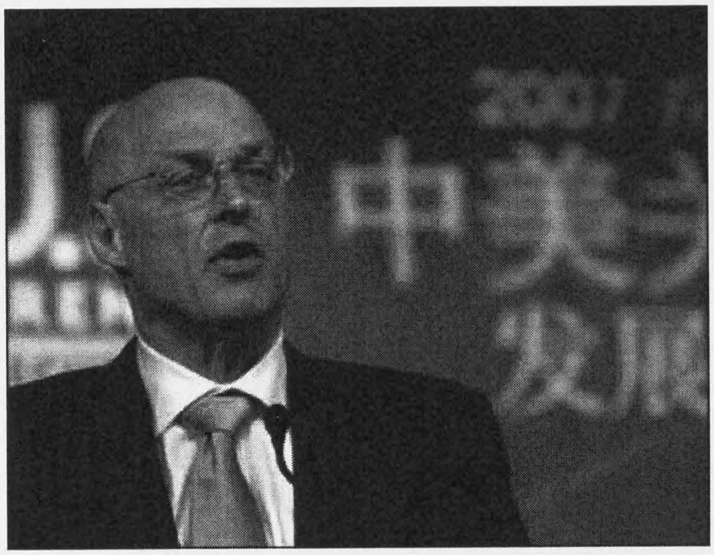
**-30-**

**REPORTS**

- Protocol to the US, New Zealand Income Tax Treaty

## U.S. and China Hold Meeting of the Strategic Economic Dialogue

12/3/2008



Treasury Secretary Henry M. Paulson, Jr. led a U.S. delegation to China last week for the fifth Cabinet level meeting of the SED. Presidents Bush and Hu established the SED in 2006 to provide a focused and effective framework for addressing economic issues of mutual concern. The meeting focused on strategies for managing macroeconomic risks and promoting balanced economic growth, strengthening cooperation in energy and environment, confronting the challenges to trade, promoting open investment environments, and furthering international economic cooperation.

**LINKS**

- Opening Remarks
- U.S. Fact Sheet
- U.S.-China Fact Sheet
- U.S. Fact Sheet on Energy and Environment Accomplishments
- Joint U.S. - China Fact Sheet on Ten Year Energy and Cooperation
- Paulson Statement at the EcoPartnerships Signing
- US and China Announce Annual Trade Finance to Assist Global Trade
- Closing Remarks
- More on the SED

**UPDATE: U.S. and China to Hold Meeting of the Strategic Economic Dialogue in China This Week**

12/1/2008
HP-1304

**Washington** – Treasury Secretary Henry M. Paulson, Jr. will lead a U.S. delegation to China this week for the meeting of the U.S.-China Strategic Economic Dialogue. The talks will take place December 4-5 in Beijing.

Secretary Paulson will be joined by Agriculture Secretary Ed Schafer, Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt, Office of Management and Budget Director Jim Nussle, U.S. Trade Representative Susan Schwab, EPA Administrator Stephen Johnson, and other Administration officials.

The fifth Cabinet-level meeting of the SED will focus on strategies for managing macroeconomic risks and promoting balanced economic growth, strengthening cooperation in energy and environment, confronting the challenges to trade, promoting open investment environments, and furthering international economic cooperation. The dialogue was launched by President Bush and President Hu in September 2006.

The following events are open to media with SED credentials:

**What**
Opening Statements and Introductions
**When**
Thursday, December 4, 2008, 8:30 a.m. Local Time
**Where**
Diaoyutai State Guesthouse
Villa 17, Thousand Person Hall
Beijing
**Note**
Media must have SED credentials to attend. SED credentialed media must be set by 7:30 a.m.

*****

**What**
Eco Partnership Signing Ceremony
**When**
Thursday, December 4, 2008, 5:45 p.m. Local Time
**Where**
Diaoyutai State Guesthouse
Multi Purpose Room
Beijing
**Note**
This is a pooled event. Media must have SED credentials to attend. SED credentialed media must be set by 4:45 p.m.

*****

**What**
Family Photo
**When**
Friday, December 5, 2008, 8:00 a.m. Local Time
**Where**
Diaoyutai State Guesthouse
**Multi**
Purpose Room
Beijing
**Note**
This is a pooled photo event. Photographers must have SED credentials to attend. SED credentialed photographers must be set by 7:00 a.m.

*****

**What**

Closing Statements by Vice Premier Wang and Secretary Paulson

**When**

Friday, December 5, 2008, 12:05 p.m. Local Time

**Where**

Diaoyutai State Guesthouse

Multi Purpose Room

Beijing

**Note**

Media must have SED credentials to attend. SED credentialed media must be set by 11:05 a.m.

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**What**

U.S. Delegation Press Conference

**When**

Friday, December 5, 2008, 1:45 p.m. Local Time

**Where**

Grand Hyatt Beijing

Grand Ballroom 1

1 East Chang An Avenue

Beijing

**Note**

Media must have SED credentials to attend. SED credentialed media must be set by 1:15 p.m.

# PROTOCOL AMENDING THE CONVENTION BETWEEN THE UNITED STATES OF AMERICA AND NEW ZEALAND FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United States of America and the Government of New Zealand, desiring to amend the Convention Between the United States of America and New Zealand for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, signed at Wellington on July 23, 1982 (hereinafter referred to as "the Convention"),

Have agreed as follows:

Article I

1. Paragraph 3 of Article 1 (General Scope) of the Convention shall be deleted and replaced by the following:

"3. Except to the extent provided in paragraph 4, this Convention shall not affect the taxation by a Contracting State of its residents (as determined under Article 4 (Residence)) and its citizens. Notwithstanding the other provisions of this Convention, a former citizen or former long-term resident of a Contracting State may, for the period of ten years following the loss of such status, be taxed in accordance with the laws of that Contracting State."

2. Article 1 (General Scope) of the Convention shall be amended by adding the following paragraphs:

"5. (a) Notwithstanding the provisions of paragraph 2(b) of this Article:

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

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

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

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

Article II

Article 2 (Taxes Covered) of the Convention shall be deleted and replaced by the following:

"<u>Article 2</u>

TAXES COVERED

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

2. There shall be regarded as taxes on income all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of property.

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

(a) in the case of New Zealand: the income tax (hereinafter referred to as New Zealand tax;

(b) in the case of the United States: the Federal income taxes imposed by the Internal Revenue Code (but excluding social security and unemployment taxes), and the Federal excise taxes imposed with respect to private foundations (hereinafter referred to as United States tax).

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

Article III

1. Paragraph 1(b) of Article 3 (General Definitions) of the Convention shall be deleted and replaced by the following:

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

2. Paragraph 1(d) of Article 3 (General Definitions) of the Convention shall be deleted and replaced by the following:

"(d) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State, and an enterprise carried on by a resident of the other Contracting State; the terms also include an enterprise carried on by a resident of a Contracting State through an entity that is treated as fiscally transparent in that Contracting State;"

3. Paragraph 1(g) of Article 3 (General Definitions) of the Convention shall be deleted and replaced by the following:

"(g) the term "United States" means the United States of America, and includes the states thereof and the District of Columbia; such term also includes the territorial sea thereof, the sea bed and subsoil of the submarine areas adjacent to that territorial sea, and any area beyond that territorial sea, over which the United States exercise sovereign rights in accordance with international law; the term, however, does not include Puerto Rico, the United States Virgin Islands, the Commonwealth of the Northern Mariana Islands, Guam or any other United States possession or territory;"

4. Paragraph 1(h) of Article 3 (General Definitions) of the Convention shall be deleted and replaced by the following:

"(h) the term "New Zealand" means the territory of New Zealand but does not include Tokelau; it also includes any area beyond the territorial sea designated under New Zealand legislation and in accordance with international law as an area in which New Zealand may exercise sovereign rights with respect to natural resources;"

5. Paragraph 1(j) of Article 3 (General Definitions) of the Convention shall be amended by deleting the final "." and replacing it with ";"

6. Paragraph 1 of Article 3 (General Definitions) of the Convention shall be amended by adding the following subparagraphs:

"(k) the term "national" of a Contracting State means:

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

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

(l) the term "pension fund" means any person established in a Contracting State that is:

(i) operated principally either:

(A) to administer or provide pension or retirement benefits; or

(B) to earn income for the benefit of one or more persons described in clause (A); and

(ii) is either:

(A) in the case of New Zealand, a superannuation scheme registered under the Superannuation Schemes Act 1989, a KiwiSaver Scheme registered under the KiwiSaver Act 2006, the New Zealand Superannuation Fund, or the Government Superannuation Fund; or

(B) in the case of the United States, generally exempt from income taxation in the United States;

(m) the term "enterprise" applies to the carrying on of any business; and

(n) the term "business" includes the performance of professional services and other activities of an independent character."

7. Paragraph 3 of Article 3 (General Definitions) of the Convention shall be deleted and replaced by the following:

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

## Article IV

1. Paragraph 1 of Article 4 (Residence) of the Convention shall be deleted and replaced by the following:

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

(a) a pension fund established in that State; and

(b) an organization that is established and maintained in that State exclusively for religious, charitable, scientific, artistic, cultural, or educational purposes, notwithstanding that all or part of its income or gains may be exempt from tax under the domestic law of that State."

2. Paragraph 2(c) of Article 4 (Residence) of the Convention shall be amended by deleting the word "citizen" and replacing it with the word "national".

3. Paragraph 2(d) of Article 4 (Residence) of the Convention shall be amended by deleting the word "citizen" and replacing it with the word "national".

4. Paragraph 4 of Article 4 (Residence) of the Convention shall be amended by deleting the words "shall be treated as a resident of neither Contracting State for purposes of the Convention" and replacing them with the words "will not be treated as a resident of either Contracting State for purposes of its claiming any benefits provided by the Convention".

Article V

Article 7 (Business Profits) of the Convention shall be amended by adding the following paragraphs:

"8. In applying this Article, paragraph 6 of Article 10 (Dividends), paragraph 4 of Article 11 (Interest), paragraph 4 of Article 12 (Royalties), and paragraph 6 of Article 13 (Alienation of Property), any income or gain attributable to a permanent establishment during its existence is taxable in the Contracting State where such permanent establishment is situated even if the payments are deferred until such permanent establishment has ceased to exist.

9. Where:

(a) a resident of a Contracting State beneficially owns (whether directly or through one or more interposed fiscally transparent entities or trusts) a share of the profits of a business of an enterprise carried on in the other Contracting State by the trustee(s) of a trust other than a trust which is treated as a company for tax purposes; and

(b) in relation to that enterprise, that resident would have a permanent establishment in that other State if the resident carried on the business of the enterprise in its own capacity,

then the business of the enterprise carried on by the trustee(s) shall be deemed to be a business carried on in the other State by that resident through a permanent establishment situated in that other State and the resident's share of profits may be taxed in the other State but only so much of them as is attributable to that permanent establishment."

Article VI

Article 10 (Dividends) of the Convention shall be deleted and replaced by the following:

"Article 10

DIVIDENDS

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

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

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

   (b) 15 percent of the gross amount of the dividends in all other cases.

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

3. Notwithstanding the provisions of paragraph 2, such dividends shall not be taxed in the Contracting State of which the company paying the dividends is a resident if the beneficial owner is a company that is a resident of the other Contracting State that has owned, directly or indirectly through one or more residents of either Contracting State, shares representing 80 percent or more of the voting power in the company paying the dividends for a 12-month period ending on the date on which entitlement to the dividends is determined and:

   (a) satisfies the conditions of clause (i) or (ii) of paragraph 2(c) of Article 16 (Limitation on Benefits);

   (b) satisfies the conditions of clauses (i) and (ii) of paragraph 2(e) of Article 16, provided that the company satisfies the conditions described in paragraph 3 of that Article with respect to the dividends; or

   (c) has received a determination pursuant to paragraph 4 of Article 16 with respect to this paragraph.

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

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

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

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

   (b) For purposes of this paragraph, a REIT shall be "diversified" if the value of no single interest in real property exceeds 10 percent of its total interests in real property. For the purposes of this rule, foreclosure property shall not be considered an interest in real property. Where a REIT holds an interest in a partnership, it shall be treated as owning directly a proportion of the partnership's interests in real property corresponding to its interest in the partnership.

5. For purposes of this Article, the term "dividends" means income from shares or other rights participating in profits, as well as income that is subjected to the same taxation

treatment as income from shares under the laws of the State of which the payer is a resident.

6. The provisions of paragraphs 2 and 3 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State, of which the company paying the dividends is a resident, through a permanent establishment situated therein, and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case, the provisions of Article 7 (Business Profits) shall apply.

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

8. A company that is a resident of New Zealand and that has a permanent establishment in the United States or that is subject to tax in the United States on a net basis on its income that may be taxed in the United States under Article 6 (Income from Real Property) or under paragraph 1 of Article 13 (Alienation of Property) may be subject in the United States to a tax in addition to the tax allowable under the other provisions of this Convention. Such tax, however, may be imposed on only the portion of the business profits of the company attributable to the permanent establishment and the portion of the income that is subject to tax under Article 6 or under paragraph 1 of Article 13 that, in the United States, represents the dividend equivalent amount of such profits or income.

9. The tax referred to in paragraph 8 shall not be imposed at a rate exceeding the rate specified in paragraph 2(a). In any case, it shall not be imposed on a company that:

   (a) satisfies the conditions of clause (i) or (ii) of paragraph 2(c) of Article 16 (Limitation on Benefits);

   (b) satisfies the conditions of clauses (i) and (ii) of paragraph 2(e) of Article 16, provided that the company satisfies the conditions described in paragraph 3 of that Article with respect to an item of income, profit or gain described in paragraph 8 of this Article; or

   (c) has received a determination pursuant to paragraph 4 of Article 16 with respect to this paragraph."

## Article VII

Article 11 (Interest) of the Convention is deleted and replaced by the following:

"<u>Article 11</u>

INTEREST

1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed in that other State.

2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a

resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the interest.

3. Notwithstanding paragraph 2, interest shall be exempt from tax by the Contracting State where it arises if the interest is:

(a) beneficially owned by the other Contracting State or an instrumentality of that Contracting State which is not subject to tax on its income by that State;

(b) beneficially owned by a resident of the other Contracting State with respect to debt obligations guaranteed or insured by that State or an instrumentality of that State which is not subject to tax on its income by that State; or

(c) beneficially owned by a resident of the other Contracting State that is either:

(i) a bank; or

(ii) an enterprise substantially deriving its gross income from the active and regular conduct of a lending or finance business involving transactions with unrelated parties;

that is unrelated to the payer of the interest. For purposes of this subparagraph (c), the term "lending or finance business" includes the business of:

(A) making loans;

(B) purchasing or discounting accounts receivable, notes, or installment obligations;

(C) engaging in finance leasing (including entering into finance leases and purchasing, servicing, and disposing of finance leases and related leased assets);

(D) issuing letters of credit or providing guarantees; or

(E) providing charge and credit card services.

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

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

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

the laws of each Contracting State, due regard being had to the other provisions of the Convention.

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

8. Notwithstanding the provisions of paragraphs 1, 2 and 3:

(a) interest arising in the United States that is contingent interest of a type that does not qualify as portfolio interest under United States law may be taxed by the United States but, if the beneficial owner of the interest is a resident of New Zealand, the interest may be taxed at a rate not exceeding 15 percent of the gross amount of the interest; and

(b) interest that is an excess inclusion with respect to a residual interest in a real estate mortgage investment conduit may be taxed by the United States in accordance with its domestic law.

9. In the case of the United States, the excess, if any, of the amount of interest allocable to the profits of a company resident in the other Contracting State that are either attributable to the permanent establishment in the United States or subject to tax in the United States under Article 6 (Income from Real Property) or paragraph 1 of Article 13 (Alienation of Property) over the interest paid by that permanent establishment or trade or business in the United States shall be deemed to arise in the United States and be beneficially owned by a resident of the other Contracting State. The tax imposed under this Article on such interest shall not exceed the rate provided for in paragraph 2, unless the company is described in paragraph 3, in which case it shall be exempt from such taxation in that other Contracting State.

10. Notwithstanding paragraph 3, interest referred to in subparagraph (c) of that paragraph may be taxed in the State in which it arises at a rate not exceeding 10 percent of the gross amount of the interest if:

(a) in the case of interest arising in New Zealand, it is paid by a person that has not paid approved issuer levy in respect of the interest. This subparagraph (a) shall not apply if New Zealand does not have an approved issuer levy, or the payer of the interest is not eligible to elect to pay the approved issuer levy, or if the rate of the approved issuer levy payable in respect of such interest exceeds two percent of the gross amount of the interest. For the purposes of this Article, “approved issuer levy” includes any identical or substantially similar charge payable by the payer of interest arising in New Zealand enacted after the date of this Convention in place of approved issuer levy; or

(b) it is paid as part of an arrangement involving back-to-back loans or other arrangement that is economically equivalent and intended to have a similar effect to back-to-back loans.

11. Nothing in this Article shall be construed as restricting, in any manner, the right of a Contracting State to apply any anti-avoidance provisions of its taxation law.”

Article VIII

Article 12 (Royalties) of the Convention is deleted and replaced by the following:

"Article 12

ROYALTIES

1. Royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed in that other State.

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

3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematographic films, films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience. The term "royalties" also includes income or gains from the alienation of any property or rights described in this paragraph to the extent that such income or gains are contingent on productivity, use or disposition of such property or rights.

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

5. (a) Royalties shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the royalties, whether the person is a resident of a Contracting State or not, has in a Contracting State a permanent establishment in connection with which the liability to pay the royalties was incurred, and such royalties are borne by such permanent establishment then such royalties shall be deemed to arise in the State in which the permanent establishment is situated.

   (b) Where subparagraph (a) does not operate to deem royalties as arising in either Contracting State and the royalties relate to the use of, or the right to use, in one of the Contracting States, any property or right described in paragraph 3, the royalties shall be deemed to arise in that State.

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

## ARTICLE IX

1. Paragraph 6 of Article 13 (Alienation of Property) of the Convention shall be deleted and replaced by the following:

> "6. Income or gains from the alienation of personal property which are attributable to a permanent establishment which an enterprise of a Contracting State has or had in the other Contracting State, and gains from the alienation of such permanent establishment (alone or with the whole enterprise) may be taxed in that other State."

2. Article 13 (Alienation of Property) of the Convention shall be amended by adding the following new paragraph 7:

> "7. Where an individual who, upon ceasing to be a resident of one of the Contracting States, is treated under the taxation law of that State as having alienated any property for its fair market value and is taxed in that State by reason thereof, the individual may elect to be treated for purposes of taxation in the other Contracting State as if the individual had, immediately before ceasing to be a resident of the first-mentioned State, alienated and reacquired such property for an amount equal to its fair market value at such time."

3. Article 13 (Alienation of Property) of the Convention shall be amended by renumbering the current paragraph 7 as new paragraph 8.

## Article X

1. Article 14 (Independent Personal Services) of the Convention shall be deleted and the succeeding Articles shall not be renumbered.

2. Paragraph 4 of Article 6 (Income from Real Property) shall be amended by deleting the words "and to income from real property used for the performance of independent personal services".

3. Paragraph 2(c) of Article 15 (Dependent Personal Services) shall be amended by deleting the words "or a fixed base".

4. Paragraph 1 of Article 17 (Artistes and Athletes) shall be amended by deleting the words "Articles 14 (Independent Personal Services) and" and replacing them with the word "Article".

5. Paragraph 2 of Article 17 (Artistes and Athletes) shall be amended by deleting the words "Articles 7 (Business Profits) and 14 (Independent Personal Services)", and replacing them with the words "Article 7 (Business Profits)".

6. Paragraph 3 of Article 19 (Government Service) shall be amended by deleting the words "14 (Independent Personal Services),".

Article XI

Article 16 (Limitation on Benefits) of the Convention shall be deleted and replaced by the following:

"Article 16

LIMITATION ON BENEFITS

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

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

(a) an individual;

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

(c) a company, if:

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

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

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

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

(d) a person described in paragraphs 1(a) or 1(b) of Article 4 (Residence) of this Convention, provided that, in the case of a person described in subclause (A) of clause (i) of paragraph 1(l) of Article 3 (General Definitions), more than 50 percent of the person's beneficiaries, members or participants are individuals resident in either Contracting State; or

(e) a person other than an individual, if:

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

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

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

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

(c) In determining whether a person is "engaged in the active conduct of a trade or business" in a Contracting State under subparagraph (a) of this paragraph, activities conducted by a partnership in which that person is a partner and activities conducted by persons connected to such person shall be deemed to be conducted by such person. A person shall be connected to another if one possesses at least 50 percent of the beneficial interest in the other (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) or another person possesses at least 50 percent of the beneficial interest (or, in the case of a company, at least 50 percent of the aggregate vote and value of the company's shares or of the beneficial equity interest in the company) in each person. In any case, a person shall be considered to be connected to another if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same person or persons.

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

5. Notwithstanding the preceding provisions of this Article, where an enterprise of a Contracting State derives income from the other Contracting State, and that income is attributable to a permanent establishment which that enterprise has in a third jurisdiction, the tax benefits that would otherwise apply under the other provisions of the Convention will not apply to that income if the combined tax that is actually paid with respect to such income in the first-mentioned Contracting State and in the third

jurisdiction is less than 60 percent of the tax that would have been payable in the first-mentioned State if the income were earned in that Contracting State by the enterprise and were not attributable to the permanent establishment in the third jurisdiction. Any dividends, interest or royalties to which the provisions of this paragraph apply shall be subject to tax in the other Contracting State at a rate that shall not exceed 15 percent of the gross amount thereof. Any other income to which the provisions of this paragraph apply shall be subject to tax under the provisions of the domestic law of the other Contracting State, notwithstanding any other provision of the Convention. The provisions of this paragraph shall not apply if:

(a) in the case of royalties, the royalties are received as compensation for the use of, or the right to use, intangible property produced or developed by the permanent establishment itself; or

(b) in the case of any other income, the income derived from the other Contracting State is derived in connection with, or is incidental to, the active conduct of a trade or business carried on by the permanent establishment in the third jurisdiction (other than the business of making, managing or simply holding investments for the enterprise's own account, unless these activities are banking or securities activities carried on by a bank or registered securities dealer).

6. For purposes of this Article:

(a) the term "recognized stock exchange" means:

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

(ii) the New Zealand Stock Market; and

(iii) any other stock exchange agreed upon by the competent authorities;

(b) the term "principal class of shares" means the ordinary or common shares of the company, provided that such class of shares represents the majority of the voting power and value of the company. If no single class of ordinary or common shares represents the majority of the aggregate voting power and value of the company, the "principal class of shares" are those classes that in the aggregate represent a majority of the aggregate voting power and value of the company;

(c) the term "disproportionate class of shares" means any class of shares of a company resident in one of the Contracting States that entitles the shareholder to disproportionately higher participation, through dividends, redemption payments or otherwise, in the earnings generated in the other State by particular assets or activities of the company; and

(d) a company's "primary place of management and control" will be in the Contracting State of which it is a resident only if executive officers and senior management employees exercise day-to-day responsibility for more of the strategic, financial and operational policy decision making for the company (including its direct and indirect subsidiaries) in that State than in any other state and the staff of such persons conduct more of the day-to-day activities necessary for preparing and making those decisions in that State than in any other state."

## Article XII

1. The last sentence of paragraph 1 of Article 22 (Relief from Double Taxation) shall be deleted and replaced by the following:

> "For the purposes of this paragraph, the taxes referred to in paragraphs 3(a) and 4 of Article 2 (Taxes Covered) shall be considered income taxes."

2. Paragraph 2 of Article 22 (Relief from Double Taxation) of the Convention shall be amended by deleting the final sentence.

3. Paragraph 5 of Article 22 (Relief from Double Taxation) of the Convention shall be deleted and replaced by the following:

> "5. No provision of this Convention relating to source of income shall apply in determining credits against United States tax for foreign taxes other than those referred to in paragraphs 3(a) and 4 of Article 2 (Taxes Covered)."

## Article XIII

Article 23 (Non-Discrimination) of the Convention shall be deleted and replaced by the following:

"Article 23

NON-DISCRIMINATION

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith that is more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, in particular with respect to residence, are or may be subjected. This provision shall also apply to persons who are not residents of one or both of the Contracting States. However, for the purposes of United States taxation, United States nationals who are subject to tax on a worldwide basis are not in the same circumstances as nationals of New Zealand who are not residents of the United States.

2. The taxation on a permanent establishment that an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities.

3. The provisions of paragraphs 1 and 2 shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs, and reductions for taxation purposes on account of civil status or family responsibilities that it grants to its own residents.

4. Except where the provisions of paragraph 1 of Article 9 (Associated Enterprises), paragraph 6 of Article 11 (Interest), or paragraph 6 of Article 12 (Royalties) apply, interest, royalties, and other disbursements paid by a resident of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of the first-mentioned resident, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State.

5. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith that is more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

6. Nothing in this Article shall be construed as preventing the United States from imposing a tax as described in paragraph 8 of Article 10 (Dividends).

7. This Article shall not apply to any provision of the taxation laws of a Contracting State which is reasonably designed to prevent or defeat the avoidance or evasion of taxes."

Article XIV

Article 25 (Exchange of Information and Administrative Assistance) shall be deleted and replaced by the following:

"<u>Article 25</u>

EXCHANGE OF INFORMATION AND ADMINISTRATIVE ASSISTANCE

1. The competent authorities of the Contracting States shall exchange such information as may be relevant for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes of every kind imposed by a Contracting State to the extent that the taxation thereunder is not contrary to the Convention, including information relating to the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, such taxes. The exchange of information is not restricted by paragraph 1 of Article 1 (General Scope) or Article 2 (Taxes Covered).

2. Any information received under this Article by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment, collection, or administration of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes referred to above, or the oversight of such functions. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

3. In no case shall the provisions of the preceding paragraphs be construed so as to impose on a Contracting State the obligation:

   (a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;

   (b) to supply information that is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;

   (c) to supply information that would disclose any trade, business, industrial, commercial, or professional secret or trade process, or information the disclosure of which would be contrary to public policy (ordre public).

4. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3 but in no case shall such limitation be construed to permit a Contracting State to decline to supply information because it has no domestic interest in such information.

5. In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information requested by the other Contracting State because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

6. If specifically requested by the competent authority of a Contracting State, the competent authority of the other Contracting State shall provide information under this Article in the form of depositions of witnesses and authenticated copies of unedited original documents (including books, papers, statements, records, accounts, and writings).

7. Each of the Contracting States shall endeavor to collect on behalf of the other Contracting State such amounts as may be necessary to ensure that relief granted by the Convention from taxation imposed by that other State does not inure to the benefit of persons not entitled thereto. This paragraph shall not impose upon either of the Contracting States the obligation to carry out administrative measures that would be contrary to its sovereignty, security, or public policy.

8. The requested State shall allow representatives of the requesting State to enter the requested State to interview individuals and examine books and records with the consent of the persons subject to examination."

Article XV

Paragraph 1 of the Protocol to the Convention shall be deleted and replaced by the following:

"1. With reference to Articles 11 and 12:

If in any future double taxation convention with any other country, New Zealand agrees to limit its taxation at source on any interest or royalties to rates lower than the ones provided in this Convention, New Zealand shall notify the United States, and the Contracting States shall, at the request of the United States, and without undue delay, consult each other with a view to concluding an additional protocol to incorporate such lower rates into this Convention."

Article XVI

1. This Protocol shall be subject to ratification in accordance with the applicable procedures in the United States and New Zealand. The Contracting States shall notify each other in writing, through diplomatic channels, when their respective applicable procedures have been satisfied.

2. The Protocol shall enter into force on the date of the later of the notifications referred to in paragraph 1. The provisions of this Protocol shall have effect:

   (a) in respect of taxes withheld at source, for amounts paid or credited on or after the first day of the second month next following the date on which the Protocol enters into force;

   (b) in the United States, in respect of other taxes, for taxable periods beginning on or after the first day of January next following the date on which the Protocol enters into force;

   (c) in New Zealand, in respect of other taxes, for taxable periods beginning on or after the first day of April next following the date on which the Protocol enters into force.

3. Notwithstanding paragraph 2, the provisions of Article 25 (Exchange of Information and Administrative Assistance) shall have effect from the date of entry into force of this Protocol, without regard to the taxable period to which the matter relates."

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

DONE at Washington, in duplicate, this first day of December 2008, in the English language.

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|---|---|
| FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA: | FOR THE GOVERNMENT OF NEW ZEALAND: |
| Robert M. Kimmitt | |

# Assistant Secretary Swagel to Hold Monthly Economic Briefing

12/2/2008

HP-1305

***Assistant Secretary for Economic Policy Phillip Swagel will hold a media briefing Friday to review economic indicators from the last month and discuss the state of the U.S. economy. The event is open to the media:***

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**Who**
Assistant Secretary for Economic Policy Phillip Swagel

**What**
Monthly Economic Briefing

**When**
Friday, December 5, 11:00 a.m. EST

**Where**
Treasury Department
Media Room (4121)
1500 Pennsylvania Avenue, NW
Washington, D.C.

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

# Secretary Henry M. Paulson, Jr. Remarks on U.S.-China Economic Relations

12/2/2008

HP-1306

**Washington-** Good afternoon. I am pleased to join you and preview the SED, the Strategic Economic Dialogue's fifth meeting, which will begin Thursday in Beijing. I am particularly pleased to appear before the World Affairs Council, an organization dedicated to expanding understanding of global issues.

President Bush and President Hu formed the SED in late 2006, to foster direct engagement as the optimal way to build a mutually beneficial economic relationship. They agreed that, because of the many critical economic issues between the U.S. and China, a new approach was warranted --- and so for more than two years the SED has brought together government leaders from the highest levels in both nations to prioritize and work on issues of the day while also setting long-term objectives and building a stronger, long-term, strategic relationship.

**Direct Engagement Yields Results**

We have learned that engagement works, that engagement can help achieve meaningful, tangible results that would not have been possible otherwise. Just this year, we had a productive SED meeting in June, a productive Joint Commission on Commerce and Trade meeting in September, and on-going meetings on a variety of issues --- from economics and trade to product safety to transportation.

Engagement has helped us manage the current financial market crisis. This crisis is a global event, and governments around the world have engaged directly and responded with actions to restore stability and address market developments. International cooperation and coordination have been robust. In this regard, we appreciate the responsible role China has played during the turmoil. We have welcomed China's active participation, along with other members of the G-20, in the Summit on Financial Markets and the World Economy, and in multilateral mechanisms for cooperation including the G-20, APEC, and the International Financial Institutions.

Looking ahead, as we agreed to at the Summit held a few weeks ago, it is critical that the United States, China and other major economies continue our vigorous efforts and take whatever further actions are necessary to stabilize the financial system, including using appropriate monetary, fiscal, and financial regulatory policies. We have also agreed that major economies will reconvene before May 2009 to review progress.

Engagement with China has helped us manage and address issues surrounding consumer and product safety. Under the leadership of Secretary Leavitt, we have completed two Memoranda of Agreement, established three FDA offices in China, and developed a true culture of collaboration between our respective health ministries. Now we need to intensify our work further, to build quality into each stage of the manufacturing and distribution process, and engage stakeholders among the private sector, academia, and all levels of government.

Even during a period of trade tension, the SED has helped us manage difficult issues and kept our markets open to trade and investment. We have avoided harmful and counterproductive market-closing initiatives and productive negotiations are underway on a new Bilateral Investment Treaty. Our cooperation benefits from the common premise that countries benefit their citizens greatly when they open themselves to competition, reform their economies, and welcome foreign investment. Direct investment, such as manufacturing plants or service companies, is the ultimate vote of confidence in any economy.

In the area of transportation, the SED was instrumental in achieving a landmark civil aviation agreement in 2007 and launching a Transportation Forum this year to identify and address the key transportation challenges affecting trade between our countries.

We have developed a constructive and productive rhythm to our interactions. Half of the U.S. Cabinet and our Chinese counterparts meet and talk twice a year, build trust, work through misunderstanding and crises and, wherever possible, expand common interests. We have built confidence in our ability to work together. And between each Cabinet-level meeting there have been hundreds of meetings, videoconferences and teleconferences to advance issues further.

We have grappled with the most important and challenging issues in our bilateral economic relationship, issues like rule of law, transparency, innovation, rebalancing growth and intellectual property rights. Our discussions have been uniformly candid, meaningful, and respectful.

**Preview of Fifth SED Meeting**

Our meetings later this week in China will focus on the building blocks for an enduring U.S. – China economic partnership. We will continue to work on strategies for managing macroeconomic risks and promoting balanced growth; open investment and trade policies, including strengthening product, food and drug safety; our respective roles in international institutions and strengthening cooperation in energy and the environment. And, we will discuss a new topic as well – for the first time during the SED, the U.S. and China will focus on how our two countries can work together through international forums to strengthen the global economic system.

China's structural reform agenda, including exchange rate reform and financial sector liberalization, will continue to be a central focus of our discussions in Beijing. We will also take advantage of the opportunity to discuss other critical policy issues, including our respective commitments to maintaining open trade and investment policies, measures we are taking to improve financial regulation, and opportunities to cooperate in supporting emerging and developing countries through multilateral institutions such as the World Bank and International Monetary Fund. Consumer and product safety will also, of course, be a significant focus.

I am grateful to my Cabinet colleagues for their contributions to, and support of, the SED these past two-plus years, and for their participation in this week's meetings, including Secretaries Chao, Leavitt and Schafer, Ambassador Schwab, Assistant to the President Dan Price, Director Nussle, Administrator Johnson and our Ambassador to China Sandy Randt.

**Current Economic Conditions**

Our discussions of balanced growth, open investment and trade and international economic cooperation couldn't come at a more critical time. The United States economy has turned down sharply, the Chinese economy and the global economy have also slowed. Both the U.S. and China have been engines of global economic growth. The strength of our economies is not only critical to our own citizens, but to people in every corner of the globe. The world will watch both of us as we grapple with these difficult economic times.

Fifteen months ago the U.S. housing correction spilled over into the financial sector, pushing the banking system into stress. Consequently, the overall U.S. economy has suffered. On October 31, third quarter GDP showed negative 0.5 percent growth. The unemployment rate has risen to a level not seen in 15 years, with a loss of 240,000 jobs in October alone. Data released on November 25 showed that through September, home prices in 10 major cities had fallen 19 percent over the previous year, demonstrating that the housing correction has not abated. And as the U.S. economy slows further, it threatens to prolong the housing correction.

The authorities and capacity granted by Congress have been the key to avoiding a financial collapse. Looking forward, working with the Fed and the FDIC we now have the tools and the commitment to do what is necessary to maintain the stability of our financial system. Many challenges lie ahead and progress will not be in a straight line, but I believe we have taken the necessary steps to put us on the right path to recovery and an eventual return to prosperity. The excesses in our system built up over many years, and it will take time to work through them.

**China's Economy**

While China itself has been relatively insulated from the current financial turmoil, it still faces mounting economic challenges. As global economic growth slows, so too will demand for Chinese exports. And as Chinese leaders are acutely aware, China's economic growth has already begun to slow. In November, China announced a major fiscal stimulus package to strengthen domestic demand, a welcome policy measure for sustaining global growth. And the rural land reform plan announced in October has the potential – if effectively implemented – to help China make significant inroads in its efforts to boost rural productivity. These are important steps and we urge China to seize the opportunity to build on them.

Now is an opportunity for China to take measures to ensure sustainable, strong and balanced economic growth for its future. This means relying more on domestic demand and less on exports to drive growth. Making this shift will take bold leadership and decisive structural reforms to boost demand among households and to improve the allocation of capital within the Chinese economy. As I have emphasized in the past, continued reform of China's exchange rate policies is an integral part of this broader reform process. China has appreciated the RMB over 20 percent against the dollar since 2005 – this is important and significant, but it is important that the reform process continue.

Addressing the needs of each of our economies is both a short-term and a long-term process. In the midst of this crisis, our priority must be stability and recovery. As we take steps now to address the immediate needs of our economies, there are significant lessons we must learn, which in turn will help us reform our global economic system to prevent this from ever happening again

**Addressing Energy and Environmental Challenges**

The second major topic for the SED this week is addressing the energy security and environmental protection, challenges faced by both our nations.

The United States is the world's largest consumer of energy, the world's largest consumer and importer of oil and the world's second largest source of greenhouse gas emissions. As the world's largest and fastest-growing emerging economy, China knows what the United States has learned: economic prosperity also increases energy demand and environmental degradation. To fuel economic growth, China relies on domestic coal for 70 percent of its energy needs. The consumption of coal has led China to overtake the United States as the world's largest source of greenhouse gas emissions.

Growing economies need to move goods and people, and increased transportation has led to a near doubling of China's oil consumption over the last decade. China is now the world's second largest market for new vehicles, and the second largest consumer of oil, behind the United States. Building cooperation and trust between our countries can help prevent future competition over scarce energy resources.

Mutual interest in jointly tackling these energy and environmental challenges has given rise to a hallmark SED achievement --- the Ten Year Framework for Energy and Environment Cooperation.

Signed at last June's SED meeting, this is a comprehensive framework to promote collaboration between the United States and China to advance technological innovation, adopt highly-efficient clean energy technology, and promote natural resource sustainability.

Our initial efforts within the Framework have focused on developing shared objectives in five areas: electricity generation, transportation, clean water, clean air, and protecting wetlands and other natural areas. We will announce agreements at this week's SED detailing joint cooperative actions and the establishment of short, medium and long-term deliverables in each of these areas.

The Ten Year Framework is intended to augment multilateral efforts on climate change, such as the United Nations Framework Convention on Climate Change. The UN Convention is also being actively supported through the Major Economies Process, a parallel effort initiated by President Bush in September of 2007. Earlier this year, the Treasury Department led the creation of an international clean energy technology fund at the World Bank to address climate change worldwide. This multibillion dollar global effort is aimed at enabling the deployment of cleaner, more efficient technologies in developing nations by closing the financial gap that exists between current industry practices and available advanced technology.

In drawing distinctions among these many important energy and environmental efforts, it is helpful to think of the Ten Year Framework as focused on building the capacity to address specific challenges faced by the United States and China in meeting energy and environmental goals. Our countries are approaching these solutions in similar ways, by ensuring implementation of proven and effective policies, educating our citizens so that they can make environmentally sound decisions, and increasing the affordability of new or existing technology by reducing market access barriers.

**EcoPartnerships**

In addition to the Ten Year Framework, at last June's SED meeting we agreed to actively explore EcoPartnerships to demonstrate new models for sustainable economic growth. Targeted at the sub-national level, these are voluntary, cooperative partnerships between U.S. and Chinese entities. They include local, state or provincial government-to-government partnerships, and partnerships among businesses, universities and non-profits. The Chinese have loosely modeled EcoPartnerships after the `Special Economic Zones' created in the 1980s, where economic reform policies were tested in targeted areas such as Shenzhen and Hainan Province before introduction to the whole of China. EcoPartnerships bring a similar approach for energy and environmental innovation and policies.

At this SED meeting, the United States and China will recognize the establishment of initial EcoPartnerships. As an example, we have actively discussed a partnership between the city of Greensburg, Kansas and a town in Sichuan province. Both towns have been devastated by natural disasters. On May 4, 2007, Greensburg was nearly completely destroyed by a tornado, and the Sichuan province suffered massive damage from an earthquake last May. Greensburg has made a commitment to rebuild in an environmentally sustainable manner, with all new buildings adhering to LEED-platinum standards. The city is also actively working to create a new model for economic development based upon green business and industry. The Sichuan town will also focus on rebuilding with environmentally sustainable development and green businesses. Through this partnership, and the relationships that develop between U.S. and Chinese industry as part of this partnership, our two countries will develop a new low energy intensive model for sustainable economic growth.

With both the Ten Year Framework and EcoPartnerships, we have benefited from the ideas and leadership outside government, and especially the private sector, in addressing the energy and environmental challenges faced by our two countries. Yesterday, we held the first meeting of our new Federal Advisory Commission on energy and environment cooperation with China, bringing together leaders from academia, NGOs, and the private sector to discuss additional ways to accelerate and enhance these efforts. And this past summer, I was pleased to recognize the public-private partnership that made the 2008 Olympic Games the most environmentally sustainable version of the Games through the award of a LEED Gold Award to the Olympic Village complex.

**Addressing Shared Challenges through Concrete Actions**

As both countries begin to implement the Ten Year Framework, we recognize that many changes will occur in the United States and China over the next decade. To ensure that the Framework endures and remains relevant, we have developed a durable organization with sufficiently flexible goals. The success of an initiative spanning ten years will depend largely on clearly defining early expectations and immediately addressing initial concerns. We have jointly focused our efforts in this way.

These first steps represent some very promising progress, yet we also recognize that neither China's nor the United States' energy and environmental challenges will be solved quickly. Our goal has always been to make long run, meaningful achievements through the ingenuity, commitment and dedication of government, business, and scientific leaders.

**Conclusion**

China will continue to play a key role in the world economy, and China's growth is an opportunity for U.S. companies and consumers, for our producers, exporters and investors. A stable, prosperous and peaceful China is in the best interest of the Chinese people, the American people and the rest of the world.

These first years of the Strategic Economic Dialogue have demonstrated that direct engagement achieves results. Just as importantly, it has improved the relationship between our two countries so that we can effectively manage complex issues, such as the recent global financial turmoil. What we have accomplished is due, first, to the vision of President Bush and President Hu and second, to the hard work and open discussions among all officials. We have stood many tests so far, and I believe we can withstand many more if we continue to engage with China as it is, not as we would imagine it to be.

Thank you.

# Deputy Assistant Secretary Sobel Remarks on the Global Financial Crisis and the IMF's Response

12/2/2008

hp-1307

Thank you for this opportunity to speak about the global financial crisis and the IMF's response. The IMF is also facing a critical juncture in implementing its agenda for institutional reform, and I would like to touch today on this subject as necessary changes underway in the IMF will require Congressional support.

**The Evolving Role of the IMF**

The IMF is a vital and necessary institution for international monetary cooperation. The need for such cooperation and the rationale for the Fund's existence is every bit as strong today as it was in 1944, when the IMF was created in the aftermath of the Depression, protectionism and beggar-thy-neighbor currency policies, and World War II.

Throughout its sixty-year plus existence, the Fund has well served the global financial community. It helped Europe and Japan achieve sustained growth and liberalization in the post-war period. After the demise of the Bretton Woods System, it helped resolve the Latin American debt crisis of the 1980s, support economic transition in Eastern Europe and the former Soviet Union in the 1990s and address the Asian and emerging market financial crisis late in the 1990s and earlier this decade. The Fund has supported low-income countries, and provided significant debt relief to the Heavily Indebted Poor Countries.

This is a record of success and all along the way, through bipartisan backing in the United States, the IMF's efforts have been consistent with the U.S. interest in promoting strong macroeconomic and financial policies around the globe. Recent events vividly demonstrate that the global economy has not outgrown the need for international monetary cooperation. Instead, they remind us that the world needs a nimble and well-equipped IMF.

**The Global Financial Crisis**

We are in the midst of a deep global financial crisis, one that historians will analyze for decades to come. Against this background, I will only focus on two points about the crisis in order to tee up my discussion about the Fund's role in it.

First, at the outset of the crisis, economic performance in many of the leading emerging market economies remained robust. This remarkable performance was testimony to years of hard effort in many countries to put in place sound macroeconomic frameworks and institutions. However, as global de-leveraging has accelerated in recent months with a significant retrenchment in risk appetite, on top of sharp declines in commodity prices, emerging markets have increasingly been impacted and in some cases significant weaknesses exposed. Their outlooks for growth and trade have been substantially pared back and external financing has become increasingly difficult and stressed.

Second, the recent Declaration of the Leaders of the Group of Twenty includes a blunt section on the root causes of the crisis. It notes that amid a period of remarkable stability and large-scale capital flow earlier this decade, market participants reached for yield without exercising proper due diligence or comprehending the risks they were taking. Financial firms also engaged in unsound risk management practices, products became more opaque and complex, and policy-makers, regulators, and supervisors failed to keep pace with these changes and the excessive leverage and risks building up in the system. Global imbalances were an important backdrop with their correspondingly large build-up in foreign exchange reserves.

**The Role of the IMF in Response to the Current Crisis**

These two points underscore that the IMF, given its unique role as a balance of payments lender and its global mandate for macroeconomic and financial surveillance has critical responsibilities in responding to the crisis. Let me turn to each.

**Crisis Lending**

With the crisis increasingly affecting emerging market economies, the IMF is reprising its role as crisis lender and has moved quickly to use its existing tools creatively and flexibly, and to adopt new tools, when necessary. This is to be welcomed. It is important that the IMF help members facing legitimate needs, and the Fund should respond flexibly in doing so.

In Hungary, Ukraine, Iceland and Pakistan, concerns about large current account deficits and external sustainability predated the crisis. As capital flows reversed in the current crisis, these vulnerabilities, particularly in Hungary, Ukraine and Iceland, translated into enormous balance of payments financing gaps. The IMF responded in each case with lending through a Standby Arrangement, the Fund's workhorse financing tool that can be quickly implemented via "emergency procedures" and expanded in magnitude under certain circumstances via the Fund's "exceptional access policy." Stand-by arrangements include a commitment by each country to undertake key policy measures necessary to address underlying vulnerabilities.

The Fund has worked in close consultation with a number of additional countries that are also susceptible to balance of payments pressures due to some combination of large current account deficits, inflexible exchange rate regimes, and large foreign exchange-denominated credit exposures. The Fund has publicly indicated it has held discussions with Turkey, Belarus, Latvia and Serbia.

Other countries have performed very well in recent years and are fundamentally sound, but they are now facing weaknesses due to tight liquidity conditions. Such countries would not necessarily require the combination of financing and policy adjustment comprised by a traditional Standby Arrangement. But they could need liquidity to tide them over for a several month period. In anticipation of potential member needs along these lines, the IMF recently created a Short-Term Liquidity Facility, to provide such members with large-scale, three-month loans on the basis of preceding strong policy performance indicating the financing difficulties are not home grown.

With the IMF now back in the lending business amid this deep crisis and after a lull in recent years, there has been some public speculation about whether the IMF might need a massive increase in its capital.

A few months ago, the IMF had about $200 billion in loanable resources from its normal "quota-based" resources, plus an additional $50 billion as a backstop in times of need, for a total of $250 billion. In addition, Japan has recently offered to provide a further $100 billion on a temporary basis to help ensure that IMF resources are adequate, consistent with the Fund's ability to borrow supplemental resources from its members.

Prior commitments and those in recent weeks to Ukraine, Hungary, Iceland and Pakistan, total on the order of $50 billion, still leaving $200 billion for additional lending under Standbys or the new Short-Term Liquidity Facility. There could be prospective commitments that are significant in the near term, perhaps of a similar order of magnitude, but the jury is out. Potential demands on the Short-Term Liquidity Facility are difficult to gauge.

Our view is that the IMF is well positioned to meet prospective demands from its quota resources. This is not to imply that we should be complacent. History tells us that the unexpected happens and one must prepare contingency scenarios, especially for downward deviations from the baseline scenario. In their Declaration, G-20

Leaders recognized that resource adequacy of the IFIs needs to remain under close review and that resources should be increased if necessary. We completely agree. If a need for additional resources is asserted, though, it will be important for the IMF's leadership to make a credible case to shareholders as to why more money is needed and for what purposes. Further, should such a demonstrated need arise, we think there is a strong chance the need would be temporary, stemming from a once-in-a-generation financial crisis, and thus we think there would be a good case for relying on temporary funding rather than a permanent quota increase.

**Strengthening the Global Financial System**

Another aspect of the IMF's crisis role revolves around global efforts to repair regulation and financial systems and the Fund's proper role.

For many years, the IMF has played an active role on this front. The IMF's Financial Sector Assessment Program (FSAP) has provided invaluable insights to countries around the world with respect to their implementation of standards and codes, stresses faced by their financial systems, and other aspects of regulatory regimes. Indeed, the United States agreed prior to the onset of the current crisis to undergo a FSAP. It is expected to be undertaken in the run-up to the 2009-2010 U.S. Article IV review, and the United States is already in discussion with the Fund on the components. The IMF's semi-annual Global Financial Stability Report is a flagship publication, offering insightful commentary on current conditions and vulnerabilities in the global financial system. IMF Article IV bilateral surveillance reports typically cover financial sector issues. IMF programs have often sought to tackle weaknesses in countries' financial system and ensure that they remain strong or are restored to health. This is a rich and invaluable body of work.

Regulation is a national activity, and sound regulation begins at home. But today's markets are global in scope. Also, regulation is generally micro-prudential in nature, yet the sum of the parts of micro-prudential actions clearly can and does have macro-economic and systemic ramifications. So, how does one square these circles? One answer might be to have a new international treaty establishing a global regulator and supervisory body. Yet, in a world in which the nation-state remains the dominant geopolitical actor, it is unlikely that countries would cede regulatory authority to a supra-national authority.

Hence, there is a far greater need for international cooperation among national regulators and for strengthening our understanding of the interface between micro-prudential and macro-prudential issues. Such cooperation is needed to ensure more effective and consistent regulation to protect against adverse cross-border developments affecting global stability and negative spillover effects from one country to another.

The good news is that there are many standard setting bodies (SSBs) where national regulators meet to advance international cooperation – the Basel Committee on Banking Supervision, the International Organization of Securities Commissions, the International Association of Insurance Supervisors, to name just a few. These groups work on micro-prudential regulation and they have intensified their work since the onset of the crisis. The Financial Stability Forum (FSF), created in the wake of the Asian crisis, also acts as an informal hub, pulling together much of the work of standard setting bodies. It has played a very strong role in advancing the international regulatory agenda, particularly since September of 2007, when the G7 countries set forth many tasks for the FSF to coordinate.

The IMF, while lacking a mandate in regulating financial sectors, clearly has a leadership role in macroeconomics and financial sector surveillance and must contribute to making the global financial system stronger and more secure. To that end, it is critical for the future of international financial stability that these micro- and macro-prudential perspectives are successfully woven together. Against this background, the United States welcomes and supports the recent agreement between the IMF and FSF to enhance their collaboration and clarify their respective roles in this process, consistent with their mandates. This agreement, in particular, underscores that:

- The IMF has the lead on surveillance of the global financial system through its important role in FSAPs, standards, and Article IVs.
- The elaboration of international financial sector supervisory and regulatory policies and standards, and coordination across standard setting bodies, is the principle task of the FSF, and the IMF participates in this work and provides input as an FSF member.
- The IMF and the FSF will together cooperate in conducting early warning exercises.

In short, strong IMF-FSF-SSB collaboration, teamwork and respect for individual mandates, is a pragmatic and sound answer for squaring the circle. The IMF's role in this regard is absolutely vital. Also, to enhance the global legitimacy of the FSF, its membership needs to be broadened on an immediate basis.

The recent Declaration of the Leaders of the Group of Twenty focused heavily on tackling regulatory weaknesses to minimize the chances of a repeat of another crisis. There is much good work underway and much more to do.

**IMF Reform Agenda**

It is essential to the health and resilience of the global economy that the IMF adeptly carry out these crisis-related roles, but it is equally important that the IMF continue root-and-branch reforms to modernize itself and retain its relevance and legitimacy to the international system. This point, as well, was underscored by the Leaders of the G20.

The United States has been a strong proponent of the IMF, but we have not shied away from insisting on vigorous institutional reform. The Administration has sent legislation to Congress in order to implement reforms – reforms that the United States has strongly backed in international discussions – and I would like to take this opportunity to touch on this issue.

**Evolving its Mission**

First, for the IMF to remain vital, its mission needs to evolve and not just on the global financial crisis.

We well appreciate that exchange rate determination is an inherently complex subject and that exchange rates reflect a host of macroeconomic and microeconomic forces in an economy and the global system. Over the years, the Fund has done an outstanding job in its surveillance work on fiscal and monetary policy issues. Exchange rate analysis had not been conducted with the same vigor, yet it is one of the Fund's most basic tasks to exercise firm surveillance over a member's exchange rate policy. Last year, the Fund recognized the need to intensify its efforts and updated its 30-year old exchange rate surveillance decision. Since that time, the analytical quality, focus and depth of the Fund's exchange rate work has improved significantly. But as stated in a Treasury report to Congress in August, the vital task of making tough judgments and increasing candor and clarity on external stability and exchange rate issues has not yet met with the same success. [1] The IMF itself echoed this finding in its recent Triennial Surveillance Review. We look forward to further progress.

Another area where the IMF has sharpened the focus of its mission is on promoting global financial stability and openness to international investment through its work on sovereign wealth funds. The recent agreement by the International Working Group of Sovereign Wealth Funds on a set of Generally Accepted Principles and Practices (GAAP) was an important and welcome step forward and a credit to the IMF's role as a facilitator.

In addition, macroeconomic stability is a necessary but not sufficient condition for growth in low-income countries, and the Fund has a vital role to play in this regard through its policy advice, technical assistance, and lending as appropriate. The IMF has adapted its tools to better meet the needs of its low-income members. It has strengthened its advice on policy responses to scaled up aid, and food and fuel price volatility. And it has helped break the cycle of over-dependence on Fund lending by providing deep debt relief to highly-indebted poor countries, implementing a new Debt Sustainability Framework, and introduced a non-borrowing "Policy Support Instrument" to untie intensive policy engagement from IMF borrowing.

**Governance Structure**

The second major area for reform is the IMF's governance structure. The United States has long recognized that the Fund's governance structure does not reflect the realities of today's global landscape and we have been a leading advocate for reforming the IMF's voting weights to reflect the rise of dynamic emerging markets.

The quota reform deal secured last April, in which the United States played a key leadership role, is a useful first step, although we would have preferred to see greater ambition and change.

- The reform package includes a new formula for determining country quotas. It will give significantly more weight to GDP and thus better reflect countries' relative weights in the global economy.
- The reform also includes a tripling of "basic votes" which will boost the voice of the poorest countries.
- Finally, the package includes a targeted quota increase aimed at the most under-represented countries. Under the reform, 54 under-represented countries will receive a combined increase of about 5 percentage points of total IMF quotas.

The U.S. quota share in the IMF is roughly 17 percent and this allows the United States to play a special role in influencing key IMF decisions such as quota increases, gold sales and charter changes. With the United States representing roughly one-quarter of global GDP, the new IMF formulas would have indicated a much higher U.S. quota share. In order to provide more room for quota increases for emerging market and developing countries, we decided to forgo the increase in voting power we would have otherwise been entitled to. That said , we felt that keeping our voting share broadly constant was important to ensuring a strong and continued U.S. leadership position in the IMF.

Yet, this leadership position would have been jeopardized by the increase in the nominal size of the Fund, if our nominal quota had not risen commensurately. Accordingly, the U.S. nominal quota in the IMF will need to increase, on the order of $7½ billion. In return for claims on the IMF, the United States receives an interest-bearing and liquid reserve asset, making IMF drawings on the U.S. quota part of our international reserve position. Thus although Congressional authorization and appropriation are required for an increase in our nominal quota, IMF use of our quota line does not entail any net budgetary outlay.

Our advocacy for governance reform is not limited to changes in voting weights. In addition, we have sought changes to the Executive Board to make it more effective. A recent analysis by the Fund's Independent Evaluation Office confirmed that the size of the Board is unwieldy. The United States has called for a reduction in Board chairs from 24 presently to 22 in 2010 and 20 in 2012, without any reduction in the chairs of developing countries and emerging markets. The IMF's Managing Director has appointed a panel of external experts to further study possible reform of the Board. We hope this panel will seriously consider the U.S. proposal and develop other recommendations to improve Board effectiveness.

**Financing Model**

The IMF relies predominantly on lending income to finance not just lending-related activities but also its global, regional, and bilateral surveillance and technical assistance. While the recent uptick in Fund programs will boost lending income in the short term, IMF lending is subject to wide fluctuations and is projected to be on a downward trend, making IMF finances no longer sustainable. Crises and periods of high Fund lending will periodically occur, but generally stronger emerging market policies and institutions appear likely to put IMF lending (and lending income) on a permanently lower path over the long term.

In response to the steep decline in Fund lending in 2006 and 2007, the Fund initiated a review of its long-term finances by a distinguished external committee led by Andrew Crockett. The Committee had a mandate to propose alternate, sustainable sources of income to meet IMF administrative expenses. At the same time, the United States, joined by others, insisted that the Fund undertake a comprehensive review of IMF administrative expenditures, with a view to significant cuts.

On balance, estimates suggest that the Fund could face budget gaps on the order of $400 million per annum over the longer term. To address the vulnerabilities in the IMF's financing model:

- IMF Management has already carried out significant staff cuts -- over 380 positions, out of 3,000 total -- reducing expenditures by roughly 10 percent, for an annual savings of about $100 million.
- The IMF agreed to conduct a limited sale of IMF gold, the proceeds of which would be placed in an endowment that would generate annual interest earnings and cover the bulk of the remaining gap. The IMF would minimize risk of market disruption by (1) pursuing off-market sales to central banks; (2) conducting sales over several years; and (3) coordinating with the European central banks in accordance with the Central Bank Gold Agreement to fit IMF gold sales into existing expectations for official gold sales. Key global gold producers have indicated a willingness to go along with a sale, subject to these terms.
- Other Crockett Committee recommendations accepted by the IMF Board include a conservative expansion of the IMF's investment mandate to generate higher average returns over time.

**The Need for Congressional Action**

These important governance and finance reforms have been set in motion, but cannot be completed without support from the U.S. Congress. Changes in the U.S. quota and amendments to the IMF's Articles of Agreement to increase basic votes and expand the IMF's investment mandate require Congressional authorization for U.S. assent. Likewise, U.S. assent to the sale of IMF gold to finance an endowment requires authorization by Congress. In addition, a budgetary appropriation is needed for the approximately $7½ billion nominal quota increase, although no budgetary outlay would be involved. Pursuant to the quota reform and IMF income negotiations, the Administration has submitted legislation to the U.S. Congress to gain the required legislative authorizations.

**Conclusion**

This is an important moment for the IMF and its future. The IMF has a critical role to play in the global resolution of the financial crisis. The proposed modernizing reforms will begin the process of making the IMF more representative of the global economy. It is strongly in the U.S. interest that the Fund fulfills these responsibilities in order to retain its relevance and preeminent place in the international monetary system. The need for a strong and effective IMF is all the more pressing in the challenging global economic environment we find ourselves in today.

Thank you.

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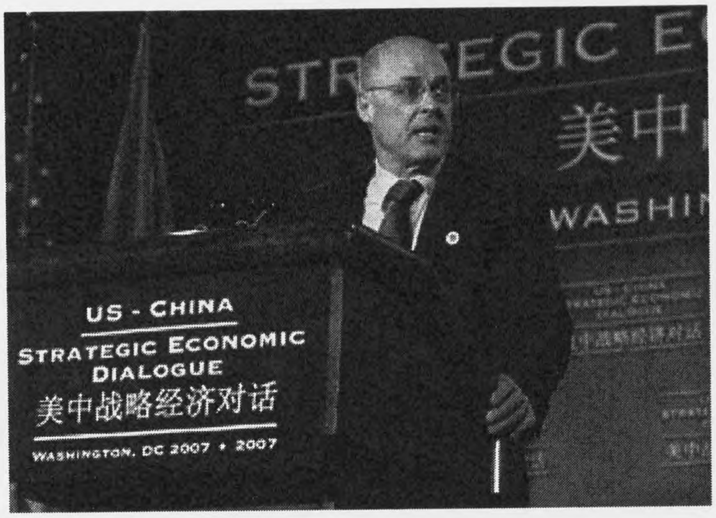
[1] U.S. Treasury; "Report to Congress on Implementation of the International Monetary Fund's 2007 Decision on Bilateral Surveillance over Members' Policies"; August 2008.

## Paulson Speaks on SED

12/2/2008




Secretary Henry M. Paulson, Jr. delivered remarks Tuesday in advance of the fifth Cabinet level meeting of the Strategic Economic Dialogue. Presidents Bush and Hu established the SED in 2006 to provide a focused and effective framework for addressing economic issues of mutual concern.

**LINKS**

- Remarks
- More on the SED

## Opening Remarks by Secretary Henry M. Paulson, Jr.

12/3/2008

HP-1308

**At the U.S. – China Strategic Economic Dialogue**

**Beijing – On behalf of the U.S. delegation, we are particularly pleased to be here with our distinguished Chinese counterparts in Beijing for two days of work on critical issues in the U.S. – China economic relationship. This will be the final SED meeting for me and my U.S. cabinet colleagues, and we are committed to a strong finish, to having perhaps our most productive and cooperative sessions to date. Thank you to Vice Premier Wang for his hospitality here today, and for the hard work he and his colleagues put into the SED and into building a stronger U.S.-China economic relationship that benefits both our peoples.**

On behalf of the U.S. delegation, we are particularly pleased to be here with our distinguished Chinese counterparts in Beijing for two days of work on critical issues in the U.S. – China economic relationship. This will be the final SED meeting for me and my U.S. cabinet colleagues, and we are committed to a strong finish, to having perhaps our most productive and cooperative sessions to date. Thank you to Vice Premier Wang for his hospitality here today, and for the hard work he and his colleagues put into the SED and into building a stronger U.S.-China economic relationship that benefits both our peoples.

President Bush and President Hu formed the SED in late 2006, to foster direct engagement as the optimal way to build a mutually beneficial economic relationship. For more than two years the SED has brought together government leaders from the highest levels in both nations to prioritize and work on issues of the day, while also setting long-term objectives.

We have learned that engagement works, that engagement can help achieve meaningful, tangible results that would not have been possible otherwise.

Engagement has helped us manage the current financial market crisis. This crisis is a global event, and governments around the world have engaged directly and responded with actions to restore stability and address market developments. International cooperation and coordination have been robust, and we appreciate the responsible role China has played during the turmoil. We have welcomed China's active participation, along with other members of the G-20, in the Summit on Financial Markets and the World Economy, and in multilateral mechanisms for cooperation including the G-20, APEC, and the International Financial Institutions.

Engagement with China has helped both countries manage and address consumer and product safety issues. We have completed two Memoranda of Agreement, established three FDA offices in China, and developed a true culture of collaboration between our respective health ministries. Now we need to intensify our work further, to build quality into each stage of the manufacturing and distribution process, and engage stakeholders among the private sector, academia, and all levels of government.

During a period of trade tension, the SED has helped us manage difficult trade and investment issues. We have avoided harmful and counterproductive market-closing initiatives, and productive negotiations are underway on a new Bilateral Investment Treaty. Overall, we cooperate based on the common premise that countries benefit their citizens greatly when they open themselves to competition, reform their economies, and welcome foreign investment. Direct investment, such as manufacturing plants or service companies, is the ultimate vote of confidence in any economy.

We have developed a constructive and productive rhythm to our interactions. We have built trust, worked through misunderstandings and crises and, wherever possible, expanded common interests. We have built confidence that the United States and China can work together.

We have grappled with the most important and challenging issues, including the rule of law, transparency, innovation, rebalancing growth and intellectual property rights. Our discussions have been uniformly candid, meaningful, and respectful.

Our meetings this week will focus on the building blocks for an enduring U.S. – China economic partnership. We will continue to work on strategies for managing macroeconomic risks and promoting balanced growth, on open investment and trade policies, including strengthening product, food and drug safety; on our respective roles in international institutions and to strengthen cooperation in energy and the environment. And, for the first time during the SED, the U.S. and China will focus on how we can work together through international forums to strengthen the global economic system.

Mutual interest in jointly tackling energy and the environment issues has given rise to a hallmark SED achievement, the Ten Year Framework for Energy and Environment Cooperation, signed last June. This comprehensive framework promotes collaboration to advance technological innovation, adopt highly-efficient clean energy technology, and promote natural resource sustainability.

We expect to reach substantive agreements this week, establishing short, medium and long-term deliverables in five areas: electricity generation, transportation, clean water, clean air, and protecting wetlands and other natural areas.

I am grateful to my cabinet colleagues for their contributions to, and support of, the SED these past two-plus years. And we are all grateful for the vision of President Bush and President Hu; by creating a structure focused on mutual success, they laid the foundation for what we have achieved thus far. These first years of the Strategic Economic Dialogue have demonstrated that direct engagement achieves results. Just as importantly, it has improved the relationship between our two countries so that we can effectively manage complex issues, such as the recent global financial turmoil. We have stood many tests so far, and I believe we can withstand many more. Thank you.

## Statement by Secretary Henry M. Paulson, Jr.

12/4/2008

HP-1309

**At the EcoPartnerships Signing During the U.S. – China Strategic Economic Dialogue**

**Beijing – Today we mark the beginning of what I believe will be a very powerful model for identifying, developing and implementing energy and environmental innovations that will benefit both the American and Chinese people.**

Today we mark the beginning of what I believe will be a very powerful model for identifying, developing and implementing energy and environmental innovations that will benefit both the American and Chinese people.

We are here to witness the signing of 7 EcoPartnerships – voluntary, cooperative partnerships between U.S. and Chinese entities including local, state or provincial government-to-government partnerships, and partnerships among businesses, universities and non-profits. By partnering at the sub-national level, ideas can be tested in targeted areas before broad introduction as a new model for sustainable growth, based on energy and environmental innovations.

The signing of the Framework and these EconPartnerships mark new progress in the U.S. –China energy and environment cooperation. With partnerships focused on electric and plug-in hybrid vehicles, sustainable economic revitalization in rural areas, cleaner and more energy efficient ports, and other areas, we are together tackling the critical energy and environment challenges facing our two countries.

These voluntary EcoPartnerships will deepen and broaden the ties between the people of our two nations, as we together make progress toward shared goals of energy security and environmental sustainability. I look forward to significant progress through these and other efforts, and congratulate the participants here today for their innovation and dedication to these efforts

## U.S. Fact Sheet: Energy and Environment Accomplishments

12/4/2008

HP-1310

During the first day of the fifth Cabinet-level meeting of the Strategic Economic Dialogue (SED), 15 U.S. Cabinet officials and agency heads joined Secretary Paulson for discussions with China's Vice Premier Wang Qishan and a delegation of 21 Chinese ministers and agency heads. Following a robust and productive discussion on strengthening cooperation in energy and the environment, the officials signed an EcoPartnerships Framework, which resulted from the June commitment to explore EcoPartnerships as a means of concrete cooperation between our two nations.

The dialogue in Beijing builds upon the progress that has been made in previous meetings of the SED to promote energy security and further environmental sustainability. Specific energy and the environment steps previously agreed to by both countries include a Ten Year Framework on Energy and Environment Cooperation, 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.

**EcoPartnerships**

Today, the United States and China signed an EcoPartnership Framework that describes the scope and establishes objectives for EcoPartnerships. Targeted at the sub-national level, EcoPartnerships are voluntary, cooperative efforts between U.S. and Chinese entities. They include local, state or provincial government-to-government partnerships, and partnerships among businesses, universities and non-profits, where ideas can be tested in targeted areas before broad introduction. Through voluntary cooperative partnerships, EcoPartnerships will demonstrate new models for sustainable economic growth and advance energy security, economic sustainability and environmental sustainability.

**The US and China welcomed the creation of seven EcoPartnerships:**

- *Denver, Colorado / Ford Motor Company and the City of Chongqing / Chang'an Motors: Focused on implementation of electric and plug-in hybrid vehicles, this partnership has the potential to significantly advance the global development of electric and plug-in hybrid vehicles.*
- *Greensburg, Kansas and Mianzhu City, Sichuan: Greensburg, Kansas was 95 percent destroyed by a tornado in May 2007 and made a commitment to sustainable redevelopment. Mianzhu City was one of the most heavily devastated areas in the May 2008 earthquake in Sichuan province. The EcoPartnership represents an opportunity to demonstrate new models for comprehensive, eco-friendly sustainable development and is focused on economic revitalization in rural America and China.*
- *Energy Future Holdings Corp. (U.S.) and China Huadian Corporation (China): Both companies are pursuing the development of sustainable business models for "clean energy" in the United States and China, particularly in the area of clean coal.*
- *Tulane University (Louisiana) and East China Normal University (Shanghai): The two universities will work together to develop a global model for the sustainability of coastal cities, focused on restoration, conservation and enhancement of environmentally sensitive wetland areas.*
- *Port of Seattle (Washington) and Dalian Port Corporation (Liaoning): The partnership between two of the world's largest sea ports aims to develop a global model for energy efficient and environmentally sustainable ports.*
- *Wichita, Kansas and Wuxi City, Jiangsu Province: The partnership is focused on demonstration and implementation of advanced technological solutions for clean air and clean water.*

- *Floating Windfarms Corporation (U.S.) and Tangshan Caofeidian New Development Area, Hebei (China): Floating Windfarms Corporation is developing clean energy technologies for the Tangshan Caofeidian New Development Area, focusing on offshore wind farm technology.* : Focused on implementation of electric and plug-in hybrid vehicles, this partnership has the potential to significantly advance the global development of electric and plug-in hybrid vehicles.: Greensburg, Kansas was 95 percent destroyed by a tornado in May 2007 and made a commitment to sustainable redevelopment. Mianzhu City was one of the most heavily devastated areas in the May 2008 earthquake in Sichuan province. The EcoPartnership represents an opportunity to demonstrate new models for comprehensive, eco-friendly sustainable development and is focused on economic revitalization in rural America and China.: Both companies are pursuing the development of sustainable business models for "clean energy" in the United States and China, particularly in the area of clean coal.: The two universities will work together to develop a global model for the sustainability of coastal cities, focused on restoration, conservation and enhancement of environmentally sensitive wetland areas.: The partnership between two of the world's largest sea ports aims to develop a global model for energy efficient and environmentally sustainable ports.: The partnership is focused on demonstration and implementation of advanced technological solutions for clean air and clean water.: Floating Windfarms Corporation is developing clean energy technologies for the Tangshan Caofeidian New Development Area, focusing on offshore wind farm technology.

Each of these EcoPartnerships will last a minimum of two years, and will report progress on their initiatives at future meetings of the SED. Additional information about EcoPartnerships can be found online at www.EcoPartnerships.gov beginning on Friday, December 5.

**The U.S. – China Ten Year Energy and Environment Cooperation Framework**

Building upon the signing of the Ten Year Framework at the fourth Cabinet-level SED meeting in June 2008, the United States and China today announced consensus on action plans for each of the five goals under the Framework: 1. Clean, Efficient and Secure Electricity Production and Transmission; 2. Clean and Efficient Transportation; 3. Clean Water; 4. Clean Air; and 5. Conservation of Forest and Wetland Ecosystems. Short-term, medium-term and long-term goals were identified under each of the five goals. The U.S. and China also reached agreement on the establishment of a goal for energy efficiency to address: 1. Energy efficiency in buildings and communities; 2. Industrial energy efficiency; and 3. Consumer recognition of energy efficient products. An action plan detailing cooperation between the United States and China will be developed before the next meeting of the SED.

**Cooperation on Energy and Environment Challenges**

Additional steps to enhance collaboration between the two countries to promote energy security and further environment sustainability reached at the fifth Cabinet-level SED meeting include:

- Support for China's Membership in the International Energy Agency (IEA): The U.S. announced support for China to join the IEA as a non-OECD member. China acknowledged the U.S. position and intends to further enhance its dialogue and cooperation with the IEA. This position builds upon previous commitments at the past two Cabinet-level SED meetings.
- Trade and Investments in Energy Efficiency Projects: The U.S. Trade and Development Agency (USTDA) and U.S. Export-Import Bank, in cooperation with Chinese partners, will jointly support public-private partnerships to address energy efficiency in Chinese businesses. China commits to identifying suitable energy efficiency projects, and the U.S. and Chinese export-import banks will facilitate financing for the projects that involve U.S. exports.
- Cooperation on Clean Water: The U.S. Trade Development Agency (USTDA) and U.S. Environmental Protection Agency (EPA), in partnership with U.S. trade associations, will form a public-private partnership to leverage U.S. private sector expertise and resources to support China's clean water program.

- Sustainable Forest Management: Both the U.S. and China agreed to jointly support a pilot project on wood charcoal alternatives in Central Africa. This joint project represents the first third-country cooperation effort involving the United States and China in Africa. Both countries have also agreed to sponsor a sustainable forest management and forest rehabilitation training workshop before June 2009 under the Asia-Pacific Network for Sustainable Forest Management and Rehabilitation (APFNet).
- Combating Illegal Logging: The U.S. and China have agreed to co-host an international workshop on "Policies on Trade in Timber and Timber Products" in December 2008. Additionally, both countries have established a mechanism for exchanging trade data on wood and wood products, in support of cooperative efforts under the memorandum of understanding on Combating Illegal Logging and Associated Trade.
- Reducing Mercury Emissions: Both the U.S. and China have agreed to strengthen cooperation in addressing mercury, with the goals of reducing demand for mercury in products and processes, more effectively managing mercury-containing wastes, and promoting best practices and techniques for reducing mercury emissions.

**-30-**

: The U.S. announced support for China to join the IEA as a non-OECD member. China acknowledged the U.S. position and intends to further enhance its dialogue and cooperation with the IEA. This position builds upon previous commitments at the past two Cabinet-level SED meetings.: The U.S. Trade and Development Agency (USTDA) and U.S. Export-Import Bank, in cooperation with Chinese partners, will jointly support public-private partnerships to address energy efficiency in Chinese businesses. China commits to identifying suitable energy efficiency projects, and the U.S. and Chinese export-import banks will facilitate financing for the projects that involve U.S. exports.: The U.S. Trade Development Agency (USTDA) and U.S. Environmental Protection Agency (EPA), in partnership with U.S. trade associations, will form a public-private partnership to leverage U.S. private sector expertise and resources to support China's clean water program.: Both the U.S. and China agreed to jointly support a pilot project on wood charcoal alternatives in Central Africa. This joint project represents the first third-country cooperation effort involving the United States and China in Africa. Both countries have also agreed to sponsor a sustainable forest management and forest rehabilitation training workshop before June 2009 under the Asia-Pacific Network for Sustainable Forest Management and Rehabilitation (APFNet).: The U.S. and China have agreed to co-host an international workshop on "Policies on Trade in Timber and Timber Products" in December 2008. Additionally, both countries have established a mechanism for exchanging trade data on wood and wood products, in support of cooperative efforts under the memorandum of understanding on Combating Illegal Logging and Associated Trade.: Both the U.S. and China have agreed to strengthen cooperation in addressing mercury, with the goals of reducing demand for mercury in products and processes, more effectively managing mercury-containing wastes, and promoting best practices and techniques for reducing mercury emissions.

**REPORTS**

- Paulson Statement at the EcoPartnerships Signing
- U.S. – China Joint Fact Sheet: Ten Year Energy and Environment Cooperation

## U.S. – China Joint Fact Sheet: Ten Year Energy and Environment Cooperation

12/4/2008

HP-1311

Recognizing that energy and environmental challenges represent two important issues facing our two countries, the United States and the People's Republic of China signed the Ten Year Framework on Energy and Environment Cooperation in Annapolis, Maryland during SED IV on June 18, 2008. Building upon the Ten Year Framework, the U.S. and China agreed to the following:

- Building upon existing bilateral agreements and recent accomplishments between the United States and China, the two countries reached consensus on initial areas of cooperation and identified milestones and actions to be taken in efforts to achieve the Ten Year Framework goals of Clean, Efficient and Secure Electricity Production and Transmission; Clean Water; Clean Air; Clean and Efficient Transportation; and Conservation of Forests and Wetlands Ecosystems;
- The United States and China agreed to establish a sixth goal on energy efficiency cooperation under the Ten Year Framework;
- Building upon the announcement made at SED IV, the United States and China signed the Framework for EcoPartnerships under the Ten Year Framework, aimed at developing new models for energy security, economic sustainability, and environmental sustainability in both countries. The following seven initial EcoPartnerships were announced:
    - Energy Future Holdings Corp. and China Huadian Corporation;
    - Denver, Colorado, USA, Ford Motor Company and Chongqing, China, Changan Auto Group Corporation;
    - Wichita, Kansas, USA and Wuxi, Jiangsu, China;
    - Floating Windfarms Corporation and Tangshan Caofeidian New Development Area, Hebei, China
    - Port of Seattle, Washington, USA and Dalian Port Corporation, Liaoning, China;
    - Greensburg, Kansas, USA and Mianzhu, Sichuan, China; and
    - Tulane University and East China Normal University (ECNU).
- The United States, through the Department of Energy, and the People's Republic of China, through the Ministry of Housing and Urban-Rural Construction, agreed to conduct an EcoCity policy study, strengthen capacity building, promote science and technology development, and design an EcoCity demonstration project under the Ten Year Framework;
- The U.S. Trade and Development Agency (USTDA) and China's National Development and Reform Commission (NDRC) will jointly develop a curriculum and training to expand capacity within the Chinese national and provincial governments, and within industry, on conducting energy efficiency audits to promote pollution reduction and energy efficient enterprises;
- Under the MOU on energy conservation and environmental protection signed at SED V, the United States, through the U.S. Trade and Development Agency (USTDA) and the U.S. Export-Import Bank, and the People's Republic of China, through the National Development and Reform Commission (NDRC) and the Export-Import Bank of China, will jointly support public private partnerships to address deficiencies in energy efficiency in Chinese enterprises; the U.S. and Chinese export-import banks will facilitate the financing for select projects that involve U.S. exports; and both sides will jointly organize trade facilitation activities;
- Under the MOU on clean water signed at SED V, the United States, through the U.S. Trade and Development Agency (USTDA) and the U.S. Environmental Protection Agency (EPA) and the People's Republic China, through the Ministry of Environmental Protection, will cooperate to establish a partnership, working through U.S. trade associations, to leverage U.S. private sector expertise and resources to build

on current bilateral efforts under the Ten-Year Framework to support China's high priority clean water program.

## U.S. – China Joint Fact Sheet: Ten Year Energy and Environment Cooperation

12/4/2008

HP-1311

Recognizing that energy and environmental challenges represent two important issues facing our two countries, the United States and the People's Republic of China signed the Ten Year Framework on Energy and Environment Cooperation in Annapolis, Maryland during SED IV on June 18, 2008. Building upon the Ten Year Framework, the U.S. and China agreed to the following:

- Building upon existing bilateral agreements and recent accomplishments between the United States and China, the two countries reached consensus on initial areas of cooperation and identified milestones and actions to be taken in efforts to achieve the Ten Year Framework goals of Clean, Efficient and Secure Electricity Production and Transmission; Clean Water; Clean Air; Clean and Efficient Transportation; and Conservation of Forests and Wetlands Ecosystems;
- The United States and China agreed to establish a sixth goal on energy efficiency cooperation under the Ten Year Framework;
- Building upon the announcement made at SED IV, the United States and China signed the Framework for EcoPartnerships under the Ten Year Framework, aimed at developing new models for energy security, economic sustainability, and environmental sustainability in both countries. The following seven initial EcoPartnerships were announced:
    - Energy Future Holdings Corp. and China Huadian Corporation;
    - Denver, Colorado, USA, Ford Motor Company and Chongqing, China, Changan Auto Group Corporation;
    - Wichita, Kansas, USA and Wuxi, Jiangsu, China;
    - Floating Windfarms Corporation and Tangshan Caofeidian New Development Area, Hebei, China
    - Port of Seattle, Washington, USA and Dalian Port Corporation, Liaoning, China;
    - Greensburg, Kansas, USA and Mianzhu, Sichuan, China; and
    - Tulane University and East China Normal University (ECNU).
- The United States, through the Department of Energy, and the People's Republic of China, through the Ministry of Housing and Urban-Rural Construction, agreed to conduct an EcoCity policy study, strengthen capacity building, promote science and technology development, and design an EcoCity demonstration project under the Ten Year Framework;
- The U.S. Trade and Development Agency (USTDA) and China's National Development and Reform Commission (NDRC) will jointly develop a curriculum and training to expand capacity within the Chinese national and provincial governments, and within industry, on conducting energy efficiency audits to promote pollution reduction and energy efficient enterprises;
- Under the MOU on energy conservation and environmental protection signed at SED V, the United States, through the U.S. Trade and Development Agency (USTDA) and the U.S. Export-Import Bank, and the People's Republic of China, through the National Development and Reform Commission (NDRC) and the Export-Import Bank of China, will jointly support public private partnerships to address deficiencies in energy efficiency in Chinese enterprises; the U.S. and Chinese export-import banks will facilitate the financing for select projects that involve U.S. exports; and both sides will jointly organize trade facilitation activities;
- Under the MOU on clean water signed at SED V, the United States, through the U.S. Trade and Development Agency (USTDA) and the U.S. Environmental Protection Agency (EPA) and the People's Republic China, through the Ministry of Environmental Protection, will cooperate to establish a partnership, working through U.S. trade associations, to leverage U.S. private sector expertise and resources to build

on current bilateral efforts under the Ten-Year Framework to support China's high priority clean water program.

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**REPORTS**

- Paulson Statement at the EcoPartnerships Signing
- U.S. Fact Sheet: Energy and Environment Accomplishments

# Interim Assistant Secretary for Financial Stability Neel Kashkari Testimony

12/4/2008

HP-1312

***Before the Senate Appropriations Subcommittee on Financial Services and General Government***

**Washington -** Chairman Durbin, Members of the Subcommittee, good morning and thank you for the opportunity to appear before you. I would like to provide an update on the Treasury Department's actions to work through the financial crisis and restore the flow of credit to the economy. We have taken multiple actions with the following three critical objectives: one, to provide stability to financial markets; two, to support the housing market by preventing avoidable foreclosures and supporting the availability of mortgage finance; and three, to protect taxpayers. Before we acted, we were at a tipping point. Credit markets were largely frozen, denying financial institutions, businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low.

We have acted quickly and creatively in coordination with the Federal Reserve, the FDIC, OTS, and the OCC to help stabilize the financial system and it is clear that our coordinated actions have made an impact. Our coordinated effort to strengthen our financial institutions so they can support our economy is critical to working through the current economic downturn. Strong financial institutions and a stable financial system will smooth the path to recovery and an eventual return to prosperity.

We believe we have taken the necessary steps to prevent a financial collapse and the authorities and flexibility granted to us by Congress are key to this. I will briefly discuss some of Treasury's policies and priorities today.

**Recent Actions**

First, I will start by discussing some of our most recent actions. Consistent with our commitment to stabilize the financial system and strengthen our financial institutions, while also protecting U.S. taxpayers, we took two recent actions in coordination with our regulators. On November 9, Treasury announced an investment to support the restructuring of the American Insurance Group (AIG), together with the Federal Reserve Bank of New York. On November 23, the U.S. government – Treasury, the Fed and the FDIC – entered into an agreement with Citigroup to provide a package of guarantees, liquidity and capital. We will continue to take the necessary steps to protect the financial system and believe these actions, together with others we have taken since the onset of the financial crisis, demonstrate a decisive use of tools to strengthen our financial institutions and increase confidence in our system.

**Equity Program**

Next, I will discuss the Capital Purchase Program, one of the most significant and effective programs we have implemented to stabilize financial markets and improve the flow of credit to businesses and consumers. As the markets rapidly deteriorated in October, it was clear to Secretary Paulson and Chairman Bernanke that the most timely, effective way to improve credit market conditions was to strengthen bank balance sheets quickly through direct purchases of equity. Secretary Paulson announced that we would commit $250 billion of the financial rescue package granted by Congress to purchase equity directly from a range of financial institutions. With a stronger capital base, our banks will be more confident and better positioned to continue lending which, although difficult to achieve during times like this, is essential to economic recovery. Moreover, a stronger capital base also enables banks to take losses as they write down or sell troubled assets.

In just over one month, Treasury has already disbursed an estimated $151 billion to 52 institutions and has pre-approved many additional applications from public depositories across the country. This progress is remarkable not only in its speed and efficacy but also in its scope. We have touched every banking market in the nation already with applications representing small and large banks alike. Taking into account the needs of the range of institutions across the country, on November 17, Treasury released a term sheet for privately-held institutions, and we have provided even more streamlined terms to facilitate capital investment into community development financial institutions. Regulators are already receiving and reviewing many applications from these private depositories, another important source of credit in our economy.

We strongly believe that healthy banks of all sizes, both public and private, should use this program to continue making credit available in their communities. Therefore, Treasury strongly supports the statement issued by bank regulators on November 12 in support of this goal. The inter-agency statement emphasized that the extraordinary government actions taken to stabilize and strengthen the banking system are not merely one-sided; all banks – not just those participating in the Capital Purchase Program – have benefited from the government's actions to restore confidence in the U.S. banking sector. Banks, in turn have obligations to their communities, particularly in this time of economic disruption. They have an obligation to continue to make credit available to creditworthy borrowers and an obligation to work with borrowers who are struggling to avoid preventable foreclosures.

The statement also urges banks to carefully review their dividend and compensation policies during this time of scarce resources. We fully support this regulatory initiative and believe it is crucial to focus on prudent lending so that institutions do not repeat the poor lending practices that were a root cause of today's problems. Restoring a vibrant economy won't materialize as quickly as all of us would like, but it will happen much quicker as confidence in our financial sector is restored in part due to the TARP

**Housing/Mortgage Finance**

Our other critical and related objective is to support the housing market and avoid preventable foreclosures. We have worked aggressively to avoid preventable foreclosures, keep mortgage financing available and develop new tools to help homeowners. Here, I will briefly highlight three key accomplishments:

First, in October 2007, Treasury helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. Through coordinated, industry-wide action, HOPE NOW has significantly increased the outreach and assistance provided to homeowners. HOPE NOW estimates that nearly 2.7 million homeowners have been helped by the industry since July 2007; the industry is now helping about 225,000 homeowners a month avoid foreclosure.

Second, we acted earlier this year before enactment of the EESA to prevent the failure of Fannie Mae and Freddie Mac, the housing GSEs that affect over 70 percent of mortgage originations. These institutions are systemically critical to financial and housing markets, and their failure would have materially exacerbated the recent market turmoil and profoundly impacted household wealth. We have stabilized the GSEs and limited systemic risk.

Third, on November 11, HOPE NOW, FHFA and the GSEs achieved a major industry breakthrough with the announcement of a streamlined loan modification program that builds on the mortgage modification protocol developed by the FDIC for IndyMac. The adoption of this streamlined modification framework is an additional tool that servicers now have to help avoid preventable foreclosures. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes.

An important complement to those guidelines was the GSEs' announcement on November 20$^{th}$ that they will suspend all foreclosures for 90 days. The foreclosure suspension will give homeowners and servicers time to utilize the new streamlined loan modification program and make it possible for more families to work out terms to stay in their homes.

**Term Asset Backed Securities Loan Facility**

Next, I will discuss our most recent program, the Term Asset Backed Securities Loan Facility (TALF). As Secretary Paulson noted on November 12, support of the consumer finance sector is a high priority for Treasury because of its fundamental role in fueling economic growth. Like other forms of credit, the availability of affordable consumer credit depends on ready access to a liquid and affordable secondary market – in this case, the asset backed credit market. Additionally, consumer finance relies on the non-bank financial sector as a source of finance. However, recent credit market stresses essentially brought this market to a halt in October, resulting in climbing credit card rates. As a result, millions of Americans cannot find affordable financing for their basic credit needs and everyday purchases.

Last week, on November 25, Treasury and the Federal Reserve announced an aggressive program aimed at supporting the normalization of credit markets and making available affordable credit for all consumers. Under the TARP, Treasury will provide $20 billion to invest in a Federal Reserve facility that will provide liquidity to issuers of consumer asset backed paper, enabling a broad range of institutions to step up their lending, and enabling borrowers to have access to lower-cost consumer finance and small business loans. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

**Priorities for TARP**

On December 1, Secretary Paulson underscored the critical priorities for the most effective deployment of remaining TARP funds, foremost of which is to ensure our banking sector has the necessary capital base to continue lending to consumers and businesses and support economic growth, and to help homeowners avoid preventable foreclosures.

I will briefly discuss these priorities:

One, in order to continue their critical role as providers of credit, both banks and non-banks may need more capital given their troubled asset holdings, continued high rates of foreclosures, and stagnant global economic conditions. We continue to look at additional capital strategies and, as we do so, we will assess the impact of the first capital program and also take into consideration existing economic and market conditions.

Two, we continue to aggressively examine strategies to mitigate foreclosures and maximize loan modifications, which are a necessary part of working through the necessary housing correction and maintaining the strength of our communities. The new program which I highlighted above with the FHFA, the GSEs, and HOPE NOW is just one example and we will continue working hard to make progress here.

Finally, as we consider potential new TARP programs, we must also maintain flexibility and firepower for this Administration and the next, to address new challenges as they arise.

**Oversight**

Concurrently, we recognize that a program as large and important as the TARP demands appropriate oversight and we are committed to transparency and oversight in all aspects of the program. We continue to take necessary measures to ensure compliance with the letter and the spirit of the requirements established by the Congress, including regular briefings with the Government Accountability Office, the Financial Stability Oversight Board, the

Inspector General and the Congressional Oversight Panel. We will also continue to meet all of the reporting requirements established by the Congress.

**Conclusion**

Our system is stronger and more stable due to our actions. Although a lot has been accomplished, we have many challenges ahead of us. We will focus on the goals outlined by Secretary Paulson and develop the right strategies to meet those objectives. Thank you and I would be happy to answer your questions.

## Treasury Designates Members of German IJU Terrorist Cell

12/4/2008

HP-1313

**Washington, DC**--The U.S. Department of the Treasury today designated three members of a German Islamic Jihad Union (IJU) cell under Executive Order 13224 (E.O. 13224), which targets terrorists and those providing support to terrorists or acts of terrorism.

"We commend the vigilant and effective work of German authorities in apprehending this terrorist cell before it could carry out its brutal and horrifying attack plans," said Adam Szubin, director of Treasury's Office of Foreign Assets Control. "In concert with this important law enforcement action, United Nations global sanctions provide a tool of unparalleled scope to disrupt the support lines of this and other al Qaida-affiliated cells."

On September 4, 2007, German authorities arrested three members of a German IJU cell--Fritz Martin Gelowicz, Daniel Martin Schneider, and Adem Yilmaz--on suspicion that they were preparing terrorist attacks on public places and possibly U.S. military facilities in Germany. German authorities had monitored the three for months and arrested them when they advanced the plot to the point of building explosive devices. The suspects had acquired 735 kilograms of 35 percent hydrogen peroxide--enough to produce approximately 550 kilograms of explosives--in order to build bombs.

German authorities also found military detonators, apparently intended for use in car bombs. Had the attacks occurred, estimates show the casualty toll could have far exceeded the 2004 train bombings in Madrid or the 2005 transport bombings in London.

Following the arrests, IJU leadership issued a statement confirming that Gelowicz, Schneider and Yilmaz had been operating under IJU direction in plotting the attacks. According to the statement, the terror plot was intended to hit U.S. and Uzbek targets in Germany.

Gelowicz reportedly played a key role in the Germany plot by purchasing the chemicals necessary for the attacks. In addition, Gelowicz allegedly was part of a group of IJU members who cased U.S. military facilities in Hanau, Germany in December 2006. Gelowicz and others reportedly were observed driving back and forth in front of the U.S. military base in Hanau.

The IJU, formerly known as the Islamic Jihad Group (IJG), is a terrorist organization that has coordinated multiple attacks in Central Asia, including the July 2004 bombings of the U.S. and Israeli Embassies in Tashkent, Uzbekistan. The IJG was added to the UN 1267 Sanctions Committee's Consolidated List of individuals and entities associated with Usama bin Ladin, al Qaida and the Taliban on June 1, 2005 and Gelowicz, Schneider, and Yilmaz were added to the Consolidated List on October 27, 2008. The IJG was named a Specially Designated Global Terrorist (SDGT) pursuant to E.O. 13224 on May 25, 2005.

Under E.O. 13224, any assets these three individuals hold under U.S. jurisdiction are frozen and U.S. persons are prohibited from engaging in any transactions with the designees.

**Identifying Information**

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# Interim Assistant Secretary for Financial Stability Neel Kashkari Remarks on Financial Markets and TARP Update

12/5/2008

hp-1314

**Washington** - Good morning and thank you for the opportunity to address you today. I am going to give a few minutes of prepared remarks and then I look forward to taking your questions. We are in an unprecedented period and market events are moving rapidly and unpredictably. We at Treasury have responded quickly to adapt to events on the ground. Throughout the crisis, we have consistently acted with the following three critical objectives: one, to stabilize financial markets and reduce systemic risk; two, to support the housing market by avoiding preventable foreclosures and supporting mortgage finance; and three, to protect taxpayers. The authorities and flexibility granted to us by Congress have been essential to developing the programs to meet these objectives.

Today, I will focus my remarks on one of our vital programs, the Capital Purchase Program, which Treasury launched on October 14 to stabilize the financial system by increasing the capital in banks. I cannot think of an example where a program of this scale and complexity has been launched and executed as quickly and as effectively as the Capital Purchase Program – in either the public or private sectors.

**Backdrop to the Capital Purchase Program**

Before we launched this program in October, we were at a tipping point. Credit markets were largely frozen, denying businesses and consumers access to vital funding and credit. Financial institutions were under extreme pressure, and investor confidence in our system was dangerously low. A number of institutions had failed or been re-structured. Throughout the crisis, we have been strongly encouraging financial institutions to raise capital and to recognize losses. However, as markets continued to deteriorate, it was clear to Secretary Paulson that we needed to use the authority and flexibility granted by Congress as aggressively as possible to quickly stabilize the system. And we believed that purchasing equity in healthy banks would be the fastest and most effective way to inject much-needed capital to the financial system and restore confidence and the flow of credit.

On October 24, Secretary Paulson announced that we would allocate $250 billion of the financial rescue package for a voluntary capital purchase program for banks and savings institutions of all sizes. We did this in combination with a guarantee of senior bank debt by the FDIC.

**Goals of the Capital Purchase Program**

The Capital Purchase Program was designed to first stabilize the financial system by increasing the capital in our banks, and then to restore confidence so credit could flow to our consumers and businesses.

As we have seen throughout this crisis, the loss of confidence in and between financial institutions can happen with lightning speed and with devastating effects. Increasing capital levels helps banks retain the confidence of depositors, investors and counterparties alike.

A stronger capital base stabilizes the system by enabling banks to take losses as they write down or sell troubled assets. With higher capital levels and restored confidence, our banks can continue to play their role as lenders in our communities; while difficult to achieve during times like this, this lending is essential to economic recovery.

**Program Success**

It has been 51 days since Secretary Paulson announced the Capital Purchase Program. In those seven weeks, the CPP has gone from an idea to a fully-functioning program. We started from scratch, recruited and built a world class team, designed the program details, hired necessary outside vendors, and implemented a complex, but efficient processing model: Applications are submitted to and reviewed by regulators. They recommend them to Treasury, where we review them before a final decision is made. And numerous transaction agreements are processed for each investment before it is funded. In just under two months, the CPP has achieved operational speed and quality that few government or private sector programs have ever reached. And our program is becoming more efficient each day.

Let me briefly touch upon the process, which is quite important because we are focused on meticulous execution, transparency and compliance with all oversight requirements set out by Congress.

Treasury created a standard investment agreement for all banks, regardless of size. We worked with the regulators to develop a consistent process for the regulators to review applications and make recommendations.

The Treasury Investment Committee meets daily and reviews dozens of applications per meeting and Treasury makes the final decision on all investments. It is typically less than a week between when a regulator submits a recommendation to Treasury and when Treasury makes an investment decision. It sometimes takes as little as two days.

We often close transactions in a couple weeks - which is a record for either the private or public sector.

- On October 28, we funded eight transactions for $115 billion to banks in four states.
- On November 14, we funded 21 transactions for $33.5 billion to banks in 16 states.
- On November 21, we funded 23 transactions for $2.9 billion to banks in 16 states.

In just over one month, we have disbursed an estimated $151 billion to 52 institutions in 25 states across the country, which means that over half the money is already out the door. We are ramping up quickly from here.

We have more applications under-review in the pipeline and many others have already been pre-approved from depositories across the country. Often banks need more time to complete their legal requirements than Treasury needs to execute the investments.

This progress is remarkable not only in its speed and quality, but also in its scope. We have touched almost every banking market in the nation with applications representing small and large banks alike. The largest investment has been $25 billion. The smallest investment has been $9 million.

**Measuring Results**

People often ask: how do we know our program is working? First, we did not allow the financial system to collapse. That is the most direct, important information. Second, we know the system is more stable than it was when Congress passed the legislation. While it is difficult to isolate one program's effects given regulators' numerous actions, one indicator that has pointed to reduced risk in the system is the average credit default swap spread for the eight largest U.S. banks, which has declined almost 207 basis points since before Congress passed the EESA.

Another key indicator of perceived risk that we are tracking is LIBOR: 1 month LIBOR has declined 217 basis points and 3 month LIBOR 202 basis points.

People also ask: when we will see banks making new loans? First, we must remember that just over half the money is out the door. Although we are executing at record speed, it will take a few months to process all the remaining applications. The money needs to get into the system before it can have the desired effect. Second, we are still at a point of low confidence – both due to the credit crisis and due to the economic downturn. While confidence is low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, we expect to see more credit extended.

This lending won't materialize as fast as any of us would like, but it will happen much faster as a result of having used the TARP to stabilize the system and to increase the capital in our banks.

We firmly believe that healthy banks of all sizes should use this program to continue making credit available in their communities. As Secretary Paulson has said, we expect banks to increase their lending as a result of these efforts and it is important that they do so. As such, Treasury supports the statement issued by bank regulators on November 12 to that effect. The statement emphasized that the extraordinary government actions taken to stabilize and strengthen the banking system are not merely one-sided; all banks – not just those participating in the Capital Purchase Program – have benefited from the government's actions to restore confidence in the financial system. Banks, in turn have obligations to their communities, particularly in this time of economic disruption. They have an obligation to continue making credit available to creditworthy borrowers and an obligation to work with borrowers who are struggling to avoid preventable foreclosures. At the same time, institutions must not repeat the poor lending practices that were a root cause of today's problems.

Treasury is focused on determining the extent of the CPP's desired effect and contributions to our policy objectives, an issue raised by the GAO's first report on the program. As noted by the GAO, given the number and variety of financial stability actions being put in place by multiple entities, it will be extremely difficult to view the CPP effects in isolation. Moreover, each individual financial institution's circumstances are different making comparisons challenging at best. Tracking where individual dollars flow through an organization is also difficult. However, we are working with the regulators to try to develop ways to determine the effectiveness of the program.

**Conclusion**

While we have made significant progress, we recognize challenges lie ahead. As Secretary Paulson has said, there is no single action the Federal Government can take to end the financial market turmoil and the economic downturn, but the new authorities Congress provided in October dramatically expanded the tools available to address the needs of our system. In these extraordinary times, we must focus on developing the most effective combination of our tools to further stabilize our financial system and speed the process of recovery. We are confident that we are pursuing the right strategy to stabilize the financial system and support the flow of credit to our economy. Thank you and I would be happy to take your questions.

## Closing Statement by Secretary Henry M. Paulson, Jr.

12/5/2008

HP-1315

***At the Fifth Meeting of the U.S. – China Strategic Economic Dialogue***

**Beijing** – Good afternoon. Thank you to my counterpart, Vice Premier Wang Qishan, and our Chinese colleagues for their hospitality during these past days. And thank you to my Cabinet colleagues for your active participation in and continued commitment to the Strategic Economic Dialogue between the United States and China.

These last two days, we have made progress on a number of important fronts. Our discussions have been productive, characterized by the straightforward back-and-forth that is only possible among colleagues who have built a relationship of trust and confidence. Broad participation on both sides allowed us to engage on a wide range of critical issues, from trade and investment to transportation, from currency reform to energy security, and from product safety to environmental sustainability.

We had a robust discussion of the current global financial market turmoil and economic downturn, its implications for both our nations and our efforts to address it. We are both committed to strengthening the global economy. I reviewed our efforts in the United States to stabilize our financial markets and restore our economy, and I welcomed the recent measures China has taken to strengthen domestic demand and maintain economic growth. As in the past, we discussed the importance of domestic-led growth, and the importance of a market-determined currency in promoting balanced growth in China that will contribute to a healthy global economy. I welcome the steps announced by the Chinese to further open their financial markets, such as allowing foreign banks to trade bonds on the same terms as Chinese banks. Strong financial markets will enable healthy economic development across China.

Protectionist sentiments grow during periods of economic downturn. We recognized this, and reiterated our commitment to fight protectionism, because open trade and investment are in the best interest of our people. Both nations reiterated the importance of completing a successful Doha round and meaningful progress toward that goal by the end of this year. The Chinese economy, like the US economy, depends on global trade, and China is stepping up its efforts to promote global growth and stability. I am particularly pleased to support China's membership in the Financial Stability Forum, which is charged with facilitating action on many of the global stability commitments endorsed by the G20 last month. To support trade flows during this period of financial turmoil, the US and China announced today that our two Export-Import Banks will make available an additional $20 billion for trade finance, particularly for creditworthy importers in developing economies. This effort should support over $38 billion in annual financing for exports from the US and China, and will benefit the global economy. Finally, global trade depends on the confidence of consumers in the safety of the products they buy. Again during this meeting of the SED, the US and China deepened cooperation on product safety and food safety protocols.

We also made significant strides at this meeting in cooperation on energy and the environment. Following up on the establishment of the 10 Year Framework for Energy and Environment Cooperation, which we launched at our SED meeting this past June, we announced today action plans on each of the five goals, and established a sixth goal of energy efficiency. The Ten Year Framework is a signature accomplishment of the SED. Sustained, comprehensive, constructive cooperation between the United States and China, reaching out to all parts of society, offers the best way to harness the resources and creativity of our two nations to meet the enormous environmental challenges facing our planet.

I particularly welcome yesterday's announcement of seven EcoPartnerships that will take concrete steps to share learning and test new ideas in targeted parts of both our nations. By creating partnerships between local governments in our two countries, and between US and Chinese universities and non-profits, these EcoPartnerships deepen the ties between the people of our two nations. Strong ties, on many levels, will contribute to the strength and vitality of the US-China relationship.

At this meeting, we have again shown that direct engagement is a pathway to success, that through engagement the United States and China can build a stronger relationship that benefits our citizens and the global economy. As I and my US colleagues take our leave, we all can be proud of what we have built in the SED. We have managed through times of tension, and through China's leadership transition earlier this year. The United States is now undergoing our own transition, and the U.S. – China economic relationship will continue to be vital to the health of our two economies and the global economy. Our countries will no doubt face future challenges, and through the foundation of mutual respect, trust and candor fostered by the SED, I have no doubt we will manage through those challenges as well. Thank you.

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**REPORTS**

- U.S. Fact Sheet: Fifth Meeting of the SED
- Joint U.S.—China Fact Sheet: The Fifth U.S.—China SED
- US and China Announce Annual Trade Finance to Assist Global Trade

# U.S. Fact Sheet: Fifth Cabinet-Level Meeting of the U.S.-China Strategic Economic Dialogue

12/5/2008

HP-1316

At the fifth Cabinet-level meeting of the Strategic Economic Dialogue (SED), United States and Chinese policymakers grappled with the most significant issues in our bilateral economic relationship, including strategies for managing macroeconomic risks and promoting balanced economic growth; strengthening cooperation in energy and the environment; confronting the challenges to trade; promoting open investment environments; and furthering international economic cooperation. Cooperation to address the current global financial turmoil and economic slowdown and cooperation on key energy and environmental challenges were two areas of particular focus as 15 U.S. Cabinet officials and agency heads joined Secretary Paulson for discussions with China's Vice Premier Wang Qishan and a delegation of 21 Chinese minister and agency heads.

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. The dialogue this week in Beijing demonstrates that through the SED, the U.S. and China have built a foundation of understanding which enables frank discussion and timely resolution of differences, and enables both sides to focus on areas of shared goals where working together can increase the progress of both nations.

**International Economic Cooperation**

The global economic and financial stresses require a global response. The United States welcomes recent Chinese measures to strengthen domestic demand and maintain economic growth. We welcome China's commitment to the declaration of the G-20 Summit on Financial Markets and the World Economy and the action plan to implement principles for reform, including: strengthening transparency and accountability; enhancing sound regulation; promoting integrity in financial markets; reinforcing international cooperation; and reforming international financial institutions. International financial institutions have a vital role to play in promoting global growth and stability. The U.S. therefore has supported the inclusion of China in multilateral institutions, such as the Inter-American Development Bank, as well as measures to adjust shares in the international financial institutions to better reflect the relative weight of dynamic emerging market economies in the world economy. China's accession to the Financial Action Task Force (FATF), following the May 2007 SED meeting, has led to stronger anti-money laundering regulations and greater cooperation in cutting off financing to terrorists.

- Trade Finance - Current financial stresses have impaired access to trade finance to help emerging market businesses and consumers purchase imports. To support exports of products from the U.S. and China to emerging economies, both countries will make additional resources available to increase access to affordable trade finance. To maintain trade flows, including with emerging and developing economies in the current difficult financial conditions, the United States Export-Import Bank and the Export-Import Bank of China agreed to make available additional resources for trade financing facilities. The U.S. Export-Import Bank is prepared to provide additional resources of $12 billion, and the Export-Import Bank of China is prepared to provide additional resources of up to $8 billion, if needed to assist in the financing of the export of U.S and Chinese goods and services. This is expected to increase the availability of trade finance by $38 billion, due to the ability of short-term trade financing to support three or more times the value of financing in trade volume during a year. These efforts will be undertaken in coordination with financial institutions in developing economies and multilateral institutions to ensure that our efforts maximize the positive impact of this new liquidity on global trade.

- Financial Stability Forum – The United States supports extending membership in the Financial Stability Forum (FSF) to China and other important emerging market economies, bringing the world's third largest economy into an important global organization charged with promoting financial stability through cooperation in financial supervision. The FSF has played an important role in securing international agreement on regulatory measures needed to address financial weaknesses and in facilitating action on many of the global stability commitments endorsed by the recently concluded G-20 Summit on Financial Markets and the World Economy. - Current financial stresses have impaired access to trade finance to help emerging market businesses and consumers purchase imports. To support exports of products from the U.S. and China to emerging economies, both countries will make additional resources available to increase access to affordable trade finance. To maintain trade flows, including with emerging and developing economies in the current difficult financial conditions, the United States Export-Import Bank and the Export-Import Bank of China agreed to make available additional resources for trade financing facilities. The U.S. Export-Import Bank is prepared to provide additional resources of $12 billion, and the Export-Import Bank of China is prepared to provide additional resources of up to $8 billion, if needed to assist in the financing of the export of U.S and Chinese goods and services. This is expected to increase the availability of trade finance by $38 billion, due to the ability of short-term trade financing to support three or more times the value of financing in trade volume during a year. These efforts will be undertaken in coordination with financial institutions in developing economies and multilateral institutions to ensure that our efforts maximize the positive impact of this new liquidity on global trade. – The United States supports extending membership in the Financial Stability Forum (FSF) to China and other important emerging market economies, bringing the world's third largest economy into an important global organization charged with promoting financial stability through cooperation in financial supervision. The FSF has played an important role in securing international agreement on regulatory measures needed to address financial weaknesses and in facilitating action on many of the global stability commitments endorsed by the recently concluded G-20 Summit on Financial Markets and the World Economy.

**Financial Sector Reform**

During the fifth Cabinet-level SED in Beijing, 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 intermediate-term steps to address policy issues arising from recent turmoil. The Chinese also reported on steps they are taking to open their financial services sector and further integrate into global markets.

The United States and China reached agreement on a number of issues resulting in further opening of China's financial services sector:

- Bond Trading: Foreign incorporated banks in China will be allowed to trade bonds in China in the inter-bank market, both for their customers or their own accounts, on the same basis as Chinese-invested banks. This action opens up market opportunities for U.S. banks that were previously limited to Chinese banks.
- Increasing Liquidity for Foreign Banks: To promote financial stability, China's State Administration of Foreign Exchange will allow foreign banks to increase their liquidity through either guarantees or foreign currency loans from overseas affiliates on a temporary basis, notwithstanding foreign currency debt quotas. This action helps maintain investor and depositor confidence so that U.S. banks can continue to grow their business in China.
- Equator Principles: China's Industrial Bank announced adoption of the Equator Principles. This action, as an important step in the implementation of China's green credit program, demonstrates the increased emphasis Chinese banks and regulators are placing on borrowers adhering to strong environmental standards in China and abroad.
- RMB Appreciation: The RMB has appreciated 20.3% since July 2005 against the U.S. dollar, and 22% on a trade-weighted basis. While recognizing that currency movements will be uneven over shorter periods, the

United States encouraged China to continue, and accelerate, RMB appreciation and flexibility. : Foreign incorporated banks in China will be allowed to trade bonds in China in the inter-bank market, both for their customers or their own accounts, on the same basis as Chinese-invested banks. This action opens up market opportunities for U.S. banks that were previously limited to Chinese banks.: To promote financial stability, China's State Administration of Foreign Exchange will allow foreign banks to increase their liquidity through either guarantees or foreign currency loans from overseas affiliates on a temporary basis, notwithstanding foreign currency debt quotas. This action helps maintain investor and depositor confidence so that U.S. banks can continue to grow their business in China.: China's Industrial Bank announced adoption of the Equator Principles. This action, as an important step in the implementation of China's green credit program, demonstrates the increased emphasis Chinese banks and regulators are placing on borrowers adhering to strong environmental standards in China and abroad.: The RMB has appreciated 20.3% since July 2005 against the U.S. dollar, and 22% on a trade-weighted basis. While recognizing that currency movements will be uneven over shorter periods, the United States encouraged China to continue, and accelerate, RMB appreciation and flexibility.

**Cooperation on Energy and the Environment**

The United States and China announced a number of steps that enhance collaboration between the two countries to promote energy security and further environmental sustainability. Highlights include the signing of the EcoPartnership Framework, the announcement of seven separate EcoPartnerships, consensus on five action plans and the establishment of a goal for energy efficiency under the Ten Year Framework. A Fact Sheet on Energy and Environment Accomplishments was released on December 4.

**Food and Product Safety**

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, drugs 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.

Both the United States and China reaffirmed the implementation and progress of existing memoranda of agreements and understanding concerning food and product safety, with the aim of enhancing cooperation and dialogue on product quality and food safety. Additionally, the two countries agreed to participate in the activities and capacity building of international organizations related to food and agricultural products.

**Trade and Investment**

Advancing open investment and trade remains a key area of discussion for the SED. During a period of slowing global demand, it is especially important that both countries avoid protectionism. Open markets will speed economic recovery, and the United States and China have made joint commitments and taken joint actions to ensure that our economies remain open and competitive, including:

- Doha: The United States and China reiterated commitments to pushing forward toward a successful completion of the WTO's Doha Development Agenda, including the commitment at the recent G-20 Summit to reach agreement on modalities by the end of the year.
- Bilateral Investment Treaty: Building upon the agreement at the June 2008 meeting of the SED to begin bilateral investment treaty (BIT) negotiations, three productive negotiation rounds have been held. Our objective is an agreement that facilitates and protects investment and enhances transparency and predictability for investors.

- Transportation Forum: The United States and China held the first meeting of the Transportation Forum on December 3, 2008, with specific areas of discussion that included urban congestion and infrastructure development. The U.S. and China signed a joint statement, including an agreement to hold the second Transportation Forum in 2009 in the U.S. and establishment of working groups to discuss priority areas of cooperation including railway technologies, urban congestion, innovative financing, transport of hazardous goods, and disaster assistant coordination.
- Investment Forum: The United States and China held the second meeting of the Investment Forum on December 3, 2008, with specific areas of discussion including creating conditions that will increase investment between the United States and China and enhance transparency and predictability for investors and how investment can make sustained contributions to bilateral economic cooperation and development. Both nations agreed that the forum discussions should be continued.
- Innovation Forum: At the second U.S.-China Conference on Innovation and Commercialization, held on December 2, 2008, the United States and China brought together government, industry, and university leaders to address key challenges and opportunities for fostering innovation and commercialization. The two sides discussed ways in which to develop human talent for innovation, attract financial investment for entrepreneurial enterprises, adapt policies and regulatory frameworks to promote and protect innovation, commercialize technologies, and recognize the importance of market-driven standards.
- Cooperation on Metrology: The U.S. Department of Commerce and China's General Administration of Quality Supervision Inspection and Quarantine signed a Protocol for Cooperation on Metrology, Standards and Conformity Assessment. This protocol will advance measurement sciences in both countries by facilitating bilateral trade, improving product quality, and increasing the development of technical standards and collaboration.

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: **REPORTS**

- Paulson Closing Statement at the SED
- Joint U.S.—China Fact Sheet: The Fifth U.S.—China SED
- US and China Announce Annual Trade Finance to Assist Global Trade

## Joint U.S.—China Fact Sheet: The Fifth U.S.—China Strategic Economic Dialogue

12/5/2008

HP-1317

The United States and China held the fifth Strategic Economic Dialogue (SED) at the Beijing Diaoyutai Guest House on December 4 and 5, 2008. 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 fifth 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 & Financial Services

The United States and China agree to continue their close communication on systemically significant macroeconomic policies, and reaffirm their commitment to continue to take material measures as necessary to maintain financial market stability, promote sustained global growth, and continue their cooperation on issues related to global economic and financial stability, and consider ways to further enhance the exchange of information on regulatory issues. In this regard, the United States and China took the following actions and made the following commitments:

- China will allow foreign incorporated banks in China to trade bonds in the inter-bank market, both for their customers or their own accounts, on the same basis as Chinese-invested banks, and, in exceptional circumstances, allow qualified foreign banks to increase their liquidity either through guarantees or foreign currency loans from overseas affiliates on a temporary basis, notwithstanding short-term external debt quotas.
- The United States reaffirmed that it welcomes foreign investment, including in its financial sector and commercially-oriented investments made through China's foreign exchange reserves and sovereign wealth fund, and its commitments to: 1) the open and non-discriminatory principles for recipients of sovereign wealth fund investment identified by the Organization for Economic Cooperation and Development; 2) apply the same regulatory standards to all applications made by Chinese banks, securities and fund management companies, as they apply to U.S. or other foreign financial institutions in like circumstances; 3) process expeditiously Chinese financial institutions' applications and 4) ensure that the Committee on Foreign Investment in the United States (CFIUS) process accords consistent and fair treatment of all foreign investment without prejudice to the place of origin.
- The United States and China welcome the recent approval of Industrial and Commercial Bank of China's application to establish a U.S. bank branch, the announcement that China's Industrial Bank will adopt the Equator Principles, and discussions and continued work on cooperation between relevant authorities on cross border auditor oversight, and agree to expand existing cooperation on risk management practices for agriculture insurance, and conduct technical cooperation on preferential tax treatment of defined contribution pension plans.

### II: Cooperation on Energy and Environment

The United States and China agree to continue their close communication and extensive collaboration in addressing the challenges of environmental sustainability, climate change, and energy security. In this regard, the United States and China took the following actions and made the following commitments:

- The United States and China announced consensus on action plans for each of the five goals under the Ten Year Energy and Environment Cooperation Framework (TYF), including: Clean, Efficient and Secure Electricity Production and Transmission; Clean Water; Clean Air; Clean and Efficient Transportation; and Conservation of Forests and Wetlands Ecosystems. The U.S. and China also announced the establishment of an Energy Efficiency goal, with the aim of completing the action plan by the next meeting of the Ten Year Framework Steering Committee.
- The United States and China signed the EcoPartnerships Framework under the Ten Year Framework. Statements of Intent for implementation of each EcoPartnership were signed between the following EcoPartners from the U.S. and China: Energy Future Holdings and Huadian Power (clean energy generation); Denver, Colorado and Chongqing (electric and plug-in hybrid vehicles); Wichita, Kansas and Wuxi, Jiangsu (clean water and air); Floating Windfarms and Caofeidian (wind energy); Port of Seattle and Dalian Port ("green" ports); Greensburg, Kansas and Mianzhu, Sichuan (post-disaster "green" reconstruction); and Tulane University and East China Normal University (wetlands research).
- The United States supports enterprises and academic institutions of both countries to conduct technology cooperation on gas hydrates exploration and development; and the U.S. agrees to work with China regarding the possibility of providing marine acoustics equipment for geophysical exploration.
- China notes U.S. support for China to join the International Energy Agency (IEA) as a non-OECD member and China intends to maintain a good cooperative relationship with the IEA and further enhance their dialogue and cooperation.
- The United States and China signed two memorandums of understanding (MOU) on energy conservation and environmental protection and clean water cooperation. Under the first MOU, the two sides will jointly support public private partnerships to address deficiencies in energy efficiency in Chinese enterprises. Among other things, USTDA and NDRC will jointly work to expand capacity within the Chinese national and provincial governments, and within industry, on conducting energy efficiency audits to promote pollution reduction and energy efficient enterprises. Under the framework of the above-mentioned MOU, both sides will jointly organize trade facilitation activities. The second MOU will establish a partnership to leverage U.S. private sector expertise and resources in support of the TYF Clean Water Action Plan.
- The United States and China agreed to co-sponsor a sustainable forest management and forest rehabilitation training workshop before June 2009, under the Asia-Pacific Network for Sustainable Forest Management and Rehabilitation (APFNet); and agreed to jointly support a pilot project on wood charcoal alternatives in Central Africa.
- The United States and China agreed to support their efforts in combating illegal logging and associated trade by exchanging data including import and export data on wood and wood products bilaterally and review expanding the scope after a year; to continue to enhance our shared understanding of "illegal logging" and explore its practical applications; and to co-host an international workshop on "Policies on Trade in Timber and Timber Products" in December 2008.
- The United States and China agreed to enhance marine cooperation including data sharing/exchange and joint strategies concerning sea-air interaction and climate change, ecosystem-based management, marine conservation, ocean governance, and coastal resiliency. They also agree to convene in 2009 the Joint Working Group on the Protocol on Marine and Fishery Science and Technology Cooperation.
- The United States and China will strengthen their cooperation in addressing the mercury issue, building upon their cooperation under the United Nations Environment Program's Global Mercury Partnership.
- The United States and China agreed to continue technology cooperation on disaster prevention under the Framework of U.S.-China Joint Commission Meeting on Science and Technological Cooperation.

**III: Trade and Investment**

Against the background of deteriorating economic conditions worldwide, the U.S. and China highlighted the importance of and their shared commitment to fighting protectionism and promoting open trade and investment. To this end, both countries:

- Held the second U.S.-China Investment Forum and exchanged views on how to create the conditions that will increase investment between our countries; agreed that Forum discussions were valuable to the bilateral investment relationship and should be continued.
- Jointly convened the first meeting of the Transportation Forum and signed a Joint Statement that included a commitment to establish working groups on new technologies in transport, urban congestion, innovative financing, transport of hazardous goods and disaster assistance coordination. These working groups will meet in the upcoming year to assess goals and objectives for the 2nd Transportation Forum.
- Conducted a joint Experts Dialogue on rules of origin issues, and agreed to hold another such Dialogue before the next SED to guide future cooperation.
- Jointly held the second U.S.-China Innovation Conference and will continue innovation cooperation and related initiativeswhile coordinating with the work of the U.S.-China Joint Commission Meeting on Science and Technology (JCM).
- Held three productive rounds of bilateral investment treaty negotiations. Our shared objective is to achieve an agreement of mutual benefit that facilitates and protects investment and enhances transparency and predictability for investors of both countries.
- Signed a Protocol on Cooperation in the fields of Metrology, Standards and Conformity Assessment.

**IV: Food and Product Safety**

Recognizing the vital importance of consumer product safety to bilateral trade and striving to safeguard consumers of both countries, the United States and China agreed to build upon the concrete progress made at SED III and SED IV in this area by enhancing dialogue and cooperation, improving information exchange, organizing technical training, and strengthening capacity to jointly address emergencies. To this end, both countries:

- Agreed to review our implementation of existing bilateral agreements, identify any gaps in performance, and prepare a corresponding progress report in advance of the next SED.
- Agreed that the U.S. Consumer Product Safety Commission will continue to consider in accordance with its procedures Chinese comments regarding the implementation rules of the 2008 U.S. Consumer Product Safety Improvement Act.
- Agreed to further promote implementation of the bilateral agreement on Food and Feed Safety.
- Agreed to further promote implementation of the MOU on Food Safety Information Notification to strengthen bilateral cooperation, jointly address emergencies, effectively protect consumers of both countries and promote the healthy development of bilateral trade.
- Agreed to participate in activities and capacity building of international organizations like the World Organization for Animal Health, International Plant Protection Convention, and Codex Alimentarius.
- Established a cooperation committee or working group on traditional Chinese medicine and identified the first round of cooperation projects. The alternatives to the use of endangered wildlife and derivative products in Traditional Chinese Medicine will be included on the agenda of this working group.

**V: International Economic Cooperation**

Following the cooperative spirit of discussions on international economic cooperation at the Summit on Financial Market and World Economy on November 15 in Washington, D.C. , the United States and China discussed ways to best utilize international financial institutions and economic organizations to promote global growth and stability, and to improve our capacity to jointly promote global economic development including tackling the challenges of food security, public health and poverty alleviation. Both sides:

- Agree that representation in international financial institutions should be adjusted to reflect better changing economic weights in the world economy.

- Support extending membership in the Financial Stability Forum to China and other important emerging market economies.
- Agree to support the Asia Pacific Economic Cooperation (APEC) forum's ongoing work to expand the institutional investor base to encourage and promote capital market development in the APEC region.
- To maintain U.S. and Chinese trade, including with emerging and developing economies in the current difficult financial conditions, the United States Export-Import Bank and the Export-Import Bank of China agreed to make available additional resources for trade financing facilities. The U.S. Export-Import Bank is prepared to provide additional resources of $12 billion, and the Export-Import Bank of China is prepared to provide additional resources of up to $8 billion, if needed to assist in the financing of the export of U.S. and Chinese goods and services.

Both sides are satisfied with the positive achievements made over the course of five rounds of formal dialogue since the launch of the SED in September 2006.

In reviewing the SED process, the U.S. participants believe that cooperation with China is the foundation of a sustained and healthy bilateral relationship, which is vital to the economic futures of both countries and the global economy. Building on existing collaborative mechanisms, the SED has created constructive new ways to identify areas of mutual benefit and produce tangible results that advance simultaneously China's reform agenda and U.S. economic interests.

The Chinese participants view the SED as an important platform to enhance mutual strategic trust and strengthen mutually beneficial economic cooperation, which is an important building block for strengthened and enduring U.S.-China relations. Our close and frequent communication and cooperation in jointly confronting challenges in global financial markets is a concrete example of the value and effectiveness of the SED.

The SED process has achieved mutual benefits that can only arise through consistent, candid dialogue and consultation. It has become an effective framework for resolving differences and addressing challenges arising from fast-moving bilateral trade and investment issues, thereby advancing the fundamental interests of our countries and peoples.

## United States and China Announce $20 Billion in Finance Facilities

12/5/2008

HP-1318

***Will Create up to $38 Billion in Annual Trade Finance to Assist Global Trade***

**Beijing** – Consistent with the direction of G-20 Leaders to improve trade finance for emerging markets, Secretary Henry M. Paulson, Jr. and Chinese Vice Premier Wang Qishan today announced a new partnership for increasing trade related finance to emerging markets. Together, the United States and China expect that their efforts will generate total trade financing for up to $38 billion in exports over the next year.

Trade finance is credit to allow exporters and importers to ship their goods and services. Companies involved with trade finance include importers, exporters, financiers, insurers and other service providers. Everyday trade in raw materials, intermediate goods and consumer goods is dependent upon the availability of trade financing. Shortages of trade finance can immediately retard economic output and employment through reductions in trade flows, and can restrict financing for capital goods necessary for world economic growth.

Current financial stresses have impaired access to trade finance to help emerging market businesses and consumers purchase imports. To support exports of products from the U.S. and China to emerging economies, both countries are making additional resources available to increase access to affordable trade finance

Secretary Paulson stated: "These new sources of financing will send an important signal to emerging markets that we are committed to sustaining trade flows, the lifeblood of the global economy. China's decision to play a central role in supporting trade finance reflects its stature in the global financial system and its commitment to help reinforce growth in economies around the world. I also appreciate the leadership of Bob Zoellick at the World Bank and Luis Alberto Moreno at the Inter-American Development Bank for increasing the amount of trade finance that their respective institutions are prepared to back. As the largest shareholder of both institutions, we are supportive of their efforts."

Specifically, the United States, through the U.S. Export-Import Bank, announced its intention to provide $4 billion in new short-term trade finance facilities and $8 billion in new medium- and long-term trade finance facilities for export of U.S. goods and services to emerging markets. China, through the Export-Import Bank of China, is providing $8 billion in short-, medium-, and long-term trade finance facilities for export of Chinese goods and services to emerging markets. Short term trade financing, typically 90 to 180 days in maturity, effectively supports three or more times the value of financing in trade volume during a year. Both countries will also coordinate with the International Finance Corporation and the Regional Development Banks to complement existing emerging market liquidity efforts.

The program will be implemented through bilateral export credit agencies in the form of direct loans, guarantees or insurance to creditworthy banks. Both the U.S. Export-Import Bank and the Export-Import Bank of China will identify transactions for financing according to their respective views of the importance of the transaction and its need for financing.

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**REPORTS**

- Paulson Closing Statement at the SED
- U.S. Fact Sheet: Fifth Meeting of the SED

- Joint U.S.—China Fact Sheet: The Fifth U.S.—China SED

## Treasury Distributes 1.546 Million Additional Stimulus Checks in November

12/5/2008

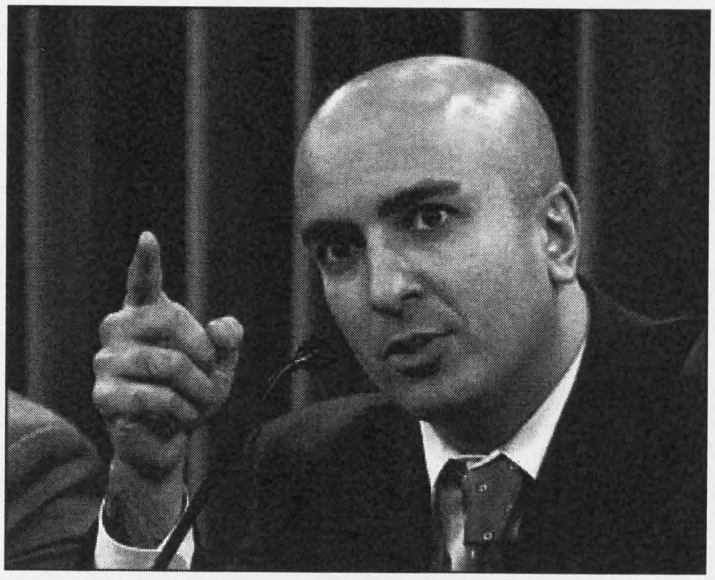
HP-1319

**Washington**-The Treasury Department announced today that it distributed 1.546 million additional stimulus payments in November, totaling $1.092 billion. As of the end of November, a total of 118.919 million payments have been distributed totaling $96.130 billion since disbursements started April 28.

While mass disbursement of stimulus checks ended July 11, small batches of payments continue to be sent out to American households. The Treasury Department will announce updates monthly until the end of the year.

## Treasury Official to Provide Update on Financial Rescue Implementation

12/8/2008



Interim Assistant Secretary for Financial Stability Neel Kashkari will deliver remarks today at the OTS Annual National Housing Forum. He will speak on the Troubled Asset Relief Program and the Capital Purchase Program.

**LINKS**

- Event Details
- More on TARP

# U.S., Liechtenstein Sign Tax Information Exchange Agreement

12/8/2008

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HP-1320

**Washington** – The Department of the Treasury today announced that the United States and Liechtenstein have signed an agreement to allow for exchange of information on tax matters between the two countries. The agreement was signed by U.S. Charge d'Affairs Leigh Carter and Liechtenstein Prime Minister Otmar Hasler in Vaduz, Liechtenstein.

The Tax Information Exchange Agreement (TIEA) with Liechtenstein will provide the United States with access to information it needs to enforce U.S. tax laws, including information related to bank accounts in Liechtenstein.

The TIEA will permit the United States to seek information from Liechtenstein on all types of federal taxes, and in both civil and criminal matters. Under the TIEA, the requested information must be obtained and exchanged without regard to whether the country receiving the request needs the information for its own tax purposes or whether the conduct being investigated would constitute a crime under its law. If the country receiving the request for information does not have the requested information in its possession, it must take relevant information gathering measures to provide the requested information. Moreover, requests from one country to the other must be honored, even if the information relates to, or is held by, nonresidents.

As with all agreements to exchange information, only specific tax authorities are allowed to receive and send information. Information exchanged pursuant to the TIEA may be used only for tax purposes, and the competent authorities must safeguard the confidentiality of information exchanged pursuant to the TIEA.

The TIEA will allow the United States to ask for information relating to 2009 and years following. Documents or other information created before 2009 can be obtained from Liechtenstein provided that the request relates to an investigation of a post-2008 year. In the case of pre-2009 years, the United States can currently obtain information regarding criminal tax matters under the U.S.-Liechtenstein Mutual Legal Assistance Treaty.

As part of the signing of the TIEA, the United States is extending Liechtenstein's treatment as an eligible Qualified Intermediary (QI) jurisdiction until December 31, 2009. This one-year extension is intended to provide Liechtenstein with time to enact the legislation necessary for full implementation of the TIEA. If Liechtenstein fully implements the TIEA by the end of 2009, Liechtenstein's QI status will be renewed for the standard six-year term. The QI program generally allows financial institutions that are located in an eligible QI jurisdiction to enter into an agreement with the IRS in which the foreign financial institution assumes certain documentation and withholding responsibilities in exchange for simplified information reporting for its non-U.S. account holders.

The TIEA also anticipates further dialogue and cooperation between the tax authorities of the United States and Liechtenstein.

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**REPORTS**

- U.S., Liechtenstein Tax Information Exchange Agreement

# AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE PRINCIPALITY OF LIECHTENSTEIN ON TAX COOPERATION AND THE EXCHANGE OF INFORMATION RELATING TO TAXES

Preamble

Whereas the Government of the United States of America and the Government of the Principality of Liechtenstein ("the parties") recognize that the well-developed economic ties between the parties call for further cooperation;

Whereas the parties wish to develop their relationship further by cooperating to their mutual benefits in the field of taxation;

Whereas the parties wish to strengthen the ability of both parties to enforce their respective tax laws; and

Whereas the parties wish to establish the terms and conditions governing the exchange of information relating to taxes.

Now, therefore, the parties have agreed as follows:

Article 1
Scope of the Agreement

The parties shall provide assistance through exchange of information that is foreseeably relevant to the administration and enforcement of the domestic laws of the parties concerning the taxes covered by this Agreement, including information concerning the determination, assessment, enforcement or collection of tax with respect to persons subject to such taxes, or the investigation or prosecution of criminal tax matters.

Article 2
Jurisdiction

Information shall be exchanged in accordance with this Agreement by the competent authority of the requested party without regard to whether the person to whom the information relates is, or whether the information is held by, a resident of a party. However, a requested party is not obliged to provide information which is neither held by its authorities nor in the possession or control of persons who are within its territorial jurisdiction. For purposes of the preceding sentence, "authorities" includes all government agencies, political subdivisions, and local authorities.

Article 3
Taxes Covered

1. This Agreement shall apply only to the following taxes imposed by the parties:

   (a) in the case of the United States, all federal taxes,

   (b) in the case of the Principality of Liechtenstein, all taxes imposed on the countrywide level.

2. This Agreement shall apply also to any identical or substantially similar taxes imposed after the date of signature of this Agreement in addition to or in place of the existing taxes only if the parties so agree. The competent authority of each party shall notify the other of changes in laws which may affect the obligations of that party pursuant to this Agreement.

Article 4
Definitions

1. In this Agreement:

"competent authority" means, for the United States, the Secretary of the Treasury or his delegate, and for Liechtenstein, the Government or its authorized representative.

"criminal tax matters" means tax matters involving intentional conduct which is liable to prosecution under the criminal laws of the requesting party;

"criminal laws" means all criminal laws designated as such under domestic law, irrespective of whether contained in the tax laws, the criminal code or other statutes;

"information" means any fact, statement, document or record in whatever form;

"person" means a natural or legal person, an estate, a trust, a partnership, a company, and any other body of persons;

"requested party" means the party to this Agreement which is requested to provide or has provided information in response to a request;

"requesting party" means the party to this Agreement submitting a request for or having received information from the requested party;

"tax" means any tax covered by this Agreement that is imposed at the national or federal level by a party, not including customs duties.

2. For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "United States" means the United States of America, including Puerto Rico, the Virgin Islands, Guam, and any other United States possession or territory.

For purposes of determining the geographical area within which jurisdiction to compel production of information may be exercised, the term "Liechtenstein" means the Principality of Liechtenstein.

3. As regards the application of this Agreement at any time by a party, any term not defined in this Agreement, unless the context otherwise requires or the competent authorities agree to a common meaning pursuant to the provisions of Article 10 of this Agreement, shall have the meaning which it has under the laws of that party, any meaning under the applicable tax laws of that party prevailing over a meaning given to the term under other laws of that party.

Article 5
Exchange of Information Upon Request

1. The competent authority of the requested party shall provide upon request by the

requesting party information for the purposes referred to in Article 1 of this Agreement and in accordance with its further provisions.

2. Any request for information made by a party shall be framed with the greatest degree of specificity possible. In all cases, such requests shall specify in writing the following:

(a) the identity of the taxpayer whose tax or criminal liability is at issue;

(b) the period of time with respect to which the information is requested;

(c) the nature of the information requested and the form in which the requesting party would prefer to receive it;

(d) the matter under the requesting party's tax law with respect to which the information is sought;

(e) the reasons for believing that the information requested is foreseeably relevant to tax administration and enforcement of the requesting party, with respect to the person identified in subparagraph (a) of this paragraph;

(f) grounds for believing that the information requested is present in the requested party or is in the possession or control of a person within the jurisdiction of the requested party;

(g) to the extent known, the name and address of any person believed to be in possession or control of the information requested;

(h) a statement that the requesting party would be able to obtain and provide the requested information if a similar request were made by the requested party;

(i) a statement that the requesting party has pursued all reasonable means available in its own territory to obtain the information, except where that would give rise to disproportionate difficulty.

3. Information shall be obtained and exchanged under this Agreement without regard to whether the requested party needs such information for its own tax purposes or whether the conduct being investigated would constitute a crime under the laws of the requested party if it had occurred in the territory of the requested party. The competent authority of the requesting party shall only make a request for information pursuant to this Article when it is unable to obtain the requested information by other means available in its own territory, except where recourse to such means would give rise to disproportionate difficulty.

4. If the information in the possession of the competent authority of the requested party is not sufficient to enable it to comply with the request for information, the requested party shall take all relevant information gathering measures to provide the requesting party with the information requested, notwithstanding that the requested party may not, at that time, need such information for its own tax purposes. Privileges under the laws and practices of the requesting party shall not apply in the execution of a request by the requested party and such matters shall be reserved for resolution by the requesting party.

5. Each party shall take all necessary measures to compel production of the information requested, and if specifically requested, the information shall be provided in the

form specified by the competent authority of the requesting party, including depositions of witnesses and authenticated copies of original documents.

6. Each party shall ensure that it has the authority, for the purposes referred to in Article 1 of this Agreement and subject to Article 2 of this Agreement, to obtain and provide, through its competent authority and upon a request:

(a) information held by banks, other financial institutions, and any person, including nominees and trustees, acting in an agency or fiduciary capacity;

(b) (i) information regarding the ownership of companies and other legal entities, including within the constraints of Article 2 of this Agreement, information on all persons in an ownership chain; (ii) in the case of partnerships, information regarding the identities of the members of the partnership; (iii) in the case of trusts, information on the settlors, trustees and beneficiaries; and (iv) in the case of foundations, information on the founders, members of the foundation council, and beneficiaries.

Article 6
Tax Investigations Abroad

1. By reasonable notice given in advance, the authorities of the requested party may allow officials of the requesting party to enter the territory of the requested party, to the extent permitted under its domestic laws, to interview individuals and examine records with the prior written consent of the individuals concerned. The competent authority of the requesting party shall notify the competent authority of the requested party of the time and place of the intended meeting with the individuals concerned. At the option of the requested party, an official of the requested party may attend such meeting.

2. At the request of the competent authority of the requesting party, the competent authority of the requested party may permit representatives of the competent authority of the requesting party to attend a tax examination in the territory of the requested party, in which case the competent authority of the requested party conducting the examination shall, as soon as possible, notify the competent authority of the requesting party of the time and place of the examination, the authority or person authorized to carry out the examination and the procedures and conditions required by the requested party for the conduct of the examination. All decisions regarding the conduct of the examination shall be made by the requested party conducting the examination.

Article 7
Possibility of Declining a Request

1. The competent authority of the requested party may decline to assist:

(a) where the request is not made in conformity with this Agreement and, in particular, where the requirements of Article 5 are not met;

(b) where the requesting party has not pursued all means available in its own territory to obtain the information, except where recourse to such means would give rise to disproportionate difficulty; or

(c) where the disclosure of the information requested would be contrary to the public policy of the requested party.

2. This Agreement shall not impose upon a party any obligation:

(a) to provide information that under the laws of the requested party is (i) subject to legal privilege or (ii) contains any trade, business, industrial, commercial or professional secret, or trade process, provided that information that would not otherwise constitute a trade, business, industrial, commercial or professional secret or trade process, shall not be treated as such merely because it is held by banks, other financial institutions, and any person, including nominees and trustees, acting in an agency or fiduciary capacity; or

(b) to carry out administrative measures at variance with its laws and administrative practices, provided that nothing in this subparagraph shall affect the obligations of a party under paragraph 6 of Article 5 of this Agreement.

For purposes of paragraph 2(a), the term "information subject to legal privilege" means information that would reveal confidential communications between a client and an attorney, where such communications are made for the purpose of seeking or providing legal advice or for the purpose of use in existing or contemplated legal proceedings.

3. A request for information shall not be refused on the ground that the tax liability giving rise to the request is disputed by the taxpayer.

4. The requested party shall not be required to obtain and provide information which the requesting party would be unable to obtain in similar circumstances under its own laws for the purpose of the administration or enforcement of its own tax laws or in response to a valid request from the requested party under this Agreement.

5. Notwithstanding paragraph 4, the statute of limitations of the requesting party pertaining to the taxes described in paragraph 1 of Article 3 of this Agreement shall govern a request for information. The expiration of a statute of limitations for taxes of the requested party shall not preclude the requested party from obtaining and providing the requested information.

Article 8
Confidentiality

Any information received by the requesting party under this Agreement shall be treated as confidential and may only be disclosed to persons or authorities (including courts and administrative bodies) in the jurisdiction of the requesting party concerned with the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by this Agreement, or to supervisory bodies, and only to the extent necessary for those persons, authorities or supervisory bodies to perform their respective responsibilities. Such persons or authorities shall use such information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions. The information shall not be disclosed to any other person, entity, or authority, or used for any purpose other than for the purposes stated in Article 1, except in cases where the requested party provides prior, written consent that the information may also be used for purposes allowed under the provisions of the existing Treaty on Mutual Legal Assistance in Criminal Matters between the parties, signed July 8, 2002, that allows for the exchange of certain tax information. In no event shall information provided under this Agreement be disclosed to another country without the express written consent of the competent authority of the requested party. Information received by the requested party in conjunction with a request for assistance under this Agreement shall likewise be treated as confidential in the requested party.

Article 9
Costs

Unless the competent authorities of the parties otherwise agree, ordinary costs incurred in providing assistance shall be borne by the requested party and extraordinary costs incurred in providing assistance shall be borne by the requesting party.

Article 10
Mutual Agreement Procedure

1. Where difficulties or doubts arise between the parties regarding the implementation or interpretation of this Agreement, the respective competent authorities shall use their best efforts to resolve the matter by mutual agreement.

2. The competent authorities may adopt and implement procedures to facilitate the implementation of this Agreement.

3. The competent authorities of the parties may consult and exchange information as necessary regarding this Agreement or any related matter.

Article 11
Mutual Assistance Procedure

If both competent authorities of the parties consider it appropriate to do so they may agree to exchange technical know-how, develop new audit techniques, identify new areas of non-compliance, and jointly study non-compliance areas.

Article 12
Dialogue on further Cooperation

The parties shall continue the dialogue on the possibilities for further cooperation in the taxation area. The parties have the right to submit proposals for discussion and to ask for a meeting with the other party to address such proposals. In the context of such discussions the parties may inform each other of possible changes to their internal tax legislation and they may take into account any such changes.

Article 13
Implementing Legislation

Legislation necessary to comply with and give effect to the terms of this Agreement shall be enacted by December 31, 2009, to the extent necessary.

Article 14
Appendix
The Appendix to this Agreement constitutes an integral part thereof.

Article 15
Entry into Force

This Agreement shall enter into force when each party has notified the other in writing of the completion of its necessary internal procedures for entry into force. Upon entry into force, it shall have effect for requests made on or after the date of entry into force with regard to tax years beginning on or after January 1, 2009. This agreement is not intended to prejudice or interfere with any investigations or other proceedings that are in process as of the date of entry into force of this Agreement.

Article 16
Termination

1. This Agreement shall remain in force until terminated by either party.

2. Either party may terminate this Agreement by giving notice of termination in writing. Such termination shall become effective on the first day of the month following the expiration of a period of three months after the date of receipt of notice of termination by the other party.

3. If a party terminates this Agreement, notwithstanding such terminations, both parties shall remain bound by the provisions of Article 8 of this Agreement with respect to any information obtained under this Agreement.

In witness whereof the undersigned, being duly authorized thereto by their respective Governments, have signed this Agreement.

Done at ____________, in duplicate, in the English and German languages, each text being equally authentic, this _________ day of _______, 2008.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF THE PRINCIPALITY OF LIECHTENSTEIN:

## APPENDIX

At the signing of the Agreement between the Government of the United States of America and the Government of the Principality of Liechtenstein on Tax Cooperation and the Exchange of Information Relating to Taxes (hereinafter referred to as "the Agreement"), the Government of the United States and the Government of the Principality of Liechtenstein have agreed to the following provisions:

1. With respect to Article 4 of the Agreement (Definitions), the term "person" also includes foundations ("Stiftungen") and "Anstalten."

2. For purposes of paragraph 3 of Article 5 of the Agreement (Exchange of Information Upon Request), the requesting party shall look only to domestic recourse in determining disproportionate difficulty, and it is not contemplated that the requesting party pursue the requested information through extraterritorial measures beyond those measures specified in the Agreement in determining disproportionate difficulty.

3. For purposes of paragraph 4 of Article 5 of the Agreement (Exchange of Information Upon Request), the term "information gathering measures" includes measures such as requiring the presentation of records for examination; gaining direct access to records; copying such records; and interviewing persons having knowledge, possession, control, or custody of pertinent information.

4. With respect to paragraph 5 of Article 5 of the Agreement (Exchange of Information Upon Request), the requested party shall have procedures and enforcement mechanisms under its domestic laws permitting the competent authority of the requested party to obtain the following information from or perform the following acts on all persons on behalf of the requesting party:

(a) specify the time and place for the taking of testimony or the production of books, papers, records, and other tangible property;

(b) place the individual giving testimony or producing books, papers, records and other tangible property under oath;

(c) permit the presence of individuals designated by the competent authority of the requesting party as being involved in or affected by execution of the request, including an accused, counsel for the accused, individuals charged with the administration and enforcement of the domestic laws of the requesting party covered by the Agreement, or a commissioner or magistrate for the purpose of rendering evidentiary rulings or determining issues of privilege under the laws of the requesting party;

(d) provide individuals permitted to be present with an opportunity to question, directly or through the executing authority, the individual giving testimony or producing books, papers, records and other tangible property;

(e) secure original and unedited books, papers, and records, and other tangible property;

(f) secure or produce true and correct copies of original and unedited books, papers and records;

(g) determine the authenticity of books, papers, records and other tangible property produced, and provide authenticated copies of original records;

(h) examine the individual producing books, papers, records and other tangible property regarding the purpose for which and the manner in which the item produced is or was maintained;

(i) permit the competent authority of the requesting party to provide written questions to which the individual producing books, papers, records and other tangible property is to respond regarding the items produced;

(j) perform any other act not in violation of the laws or at variance with the administrative practice of the requested party;

(k) certify either that procedures requested by the competent authority of the requesting party were followed or that the procedures requested could not be followed, with an explanation of the deviation and the reason therefor.

5. Pursuant to Article 8 of the Agreement (Confidentiality), any information received pursuant to the Agreement is confidential and the parties shall take appropriate measures to safeguard the confidentiality of information received pursuant to the Agreement.

6. If an information request under the Agreement is believed to be deficient in some respect, but other parts of the request meet the requirements of the Agreement, the competent authority of the requested party shall provide any information that is responsive to that part of the request that meets the requirements of the Agreement.

7. The parties express their wish to further their cooperation in tax matters beyond this Agreement. In particular, the parties intend to explore whether additional agreements or actions, such as agreements related to transfer pricing, may be undertaken.

8. Although the Agreement allows only for requests for information with regard to tax years beginning on or after January 1, 2009, the Agreement provides for exchange of documents or information created in or derived from a date preceding January 1, 2009, that are foreseeably relevant to a request relating to tax years beginning on or after January 1, 2009. Such information may be used only if there is an ongoing investigation or examination with respect to a tax year that begins on or after January 1, 2009. For example, if assistance is requested with respect to a taxpayer's bank transactions occurring after December 31, 2008, and documents such as, but not limited to, a signature card for the account in question were executed prior to January 1, 2009, the parties would exchange the documents.

9. The parties acknowledge the availability of programs generally applicable to taxpayers, including the voluntary disclosure practice of the Internal Revenue Service.

10. Upon signature of the Agreement, the United States is extending Liechtenstein's treatment as an eligible Qualified Intermediary (QI) jurisdiction until December 31, 2009. Following agreement by the competent authorities that Liechtenstein has taken the steps necessary to implement fully the Agreement, the United States shall extend Liechtenstein's eligibility as a QI jurisdiction for the same period and subject to the same restrictions, that the United States extends QI eligibility generally, with the understanding that, under applicable regulatory and administrative rules, the terms of a QI agreement between the Internal Revenue Service and any individual financial institution may vary depending on the needs of sound tax administration.

# Interim Assistant Secretary for Financial Stability Neel Kashkari Update on the TARP Program

12/8/2008

HP-1321

**Washington -** Good afternoon, thank you John for that kind introduction and for the invitation to address this audience today. We are in an unprecedented period and market events are moving rapidly and unpredictably. We at Treasury have responded quickly to adapt to events on the ground. Throughout the crisis, we have always acted with the following critical objectives in mind: one, to stabilize financial markets and reduce systemic risk; two, to support the housing market by avoiding preventable foreclosures and supporting mortgage finance; and three, to protect taxpayers. The authorities and flexibility granted to us by Congress have been essential to developing the programs necessary to meet these objectives.

Today, I will focus my remarks on a couple of very important issues -- compliance and oversight of the TARP and on measuring the results of this program. The American people provided Treasury with broad authorities to stabilize the financial system and it is essential we communicate our actions in an open and transparent manner to maintain their trust. I will describe the many steps we are taking to ensure compliance with both the letter and spirit of the law and what measurements we look at to gauge the success of our programs. A program as large and complex as the TARP would normally take many months or years to establish. But, we don't have the luxury of first building the operation, then designing our programs and then executing them. Given the severity of the financial crisis, we must build the Office of Financial Stability, design our programs, and execute them - all at the same time. We have made remarkable progress since the President signed the law only 66 days ago.

**Oversight**

The first topic I will address is oversight of the TARP. In addition to the normal oversight provided by Congressional committees of jurisdiction, the Congress established four important avenues of oversight: one, the Financial Stability Oversight Board; two, the Special Inspector General; three, the Government Accountability Office; and four, the Congressional Oversight Panel. I will review Treasury's interaction with each body in detail.

First, we moved immediately to establish the Financial Stability Oversight Board, which, by law, includes: the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Chairman of the Securities and Exchange Commission, the Secretary of Housing and Urban Development, and the Director of the Federal Housing Finance Agency.

The law required the first board meeting to take place within fourteen days. We moved very quickly, and the Oversight Board met within four days. At that initial meeting, the members of the Board selected Chairman Bernanke to be Chairman of the Oversight Board. The law requires the Board to meet once a month, but it has already met five times in the just two months since the law was signed, with numerous staff calls between meetings, and expects to meet again this week. We've also posted the bylaws and minutes of the Board meetings on Treasury's website. In addition, the Oversight Board has interacted with other oversight bodies, such as the GAO and the Congressional Oversight Panel.

Second, the law also requires appointment of a Senate-confirmed Special Inspector General to oversee the program. On November 17, the President nominated a candidate who is awaiting confirmation in the Senate. In the interim, we are coordinating closely with Treasury's Inspector General. We held our first meeting on Monday, October 6, and have had numerous meetings since then to keep the Inspector General apprised of all TARP activity. We look forward to continuing our active dialogue with the Treasury IG, and with the Special IG, upon his confirmation.

Third, the law calls for the Government Accountability Office to establish a physical presence at Treasury to monitor the program. Treasury provided workspace for our auditors within days of the President signing the law and Secretary Paulson had his first call with the Acting Comptroller General, Gene Dodaro, on Tuesday, October 7. The Acting Comptroller General and his team met with our team for the first time on Thursday, October 9. Since then, I have participated in multiple briefings with the GAO and our respective staffs are meeting almost daily for program updates and also to review contracts.

The GAO published its first report on TARP to Congress on December 2, which the law required within 60 days of enactment. The GAO met with our team on Saturday, November 22, before their report was finalized. They provided a thorough review of the TARP programs and progress – essentially a snapshot at the 60 day mark of a large, complex project that continues to be a successful work in progress. As I noted above, given the intensity of the financial crisis, we must build our operation, design our programs and execute them all at the same time. The GAO report identified nine "areas that warrant Treasury's ongoing attention." We are pleased with our auditors' recommendations because the GAO had identified topics that we already had focused on. The report was quite helpful because it provided us with thoughtful, independent verification that Treasury is, indeed, focused on the right topics and Treasury agrees with the GAO on the importance of these issues.

Given the importance of the GAO's feedback, I want to spend a few minutes going through the nine areas that GAO identified and describe what we are doing in each case:

1. **Monitoring and reporting of financial institutions activities**

- As the report indicated, given the number and variety of financial stability actions being put in place by multiple entities, it will be challenging to view the impact of the Capital Purchase Program in isolation and at the institutional level. Moreover, each individual financial institution's circumstances are different, making comparisons challenging at best, and it is difficult to track where individual dollars flow through an organization. Nonetheless, we are working with the banking regulators to develop appropriate measurements and we are focused on determining the extent to which the CPP is having its desired effect.

**2. Compliance of CPP participants with program requirements**

- **The key first step to effective compliance was developing effective program agreements and we have already accomplished that for publicly traded institutions and most private institutions. The CPP agreements are designed to require that the participants comply fully with the executive compensation restrictions set out by Congress in the legislation. We are now developing procedures to ensure that compliance with these restrictions is maintained.**

**3. Formalize existing communication strategies to keep people informed about our strategy**

- **Treasury recognizes the importance of a more comprehensive communication strategy and we are looking at ways to enhance our communications, while recognizing that the TARP program is just**

**one piece of a comprehensive response to the financial market crisis. Very detailed updates, such as this speech, are part of that strategy.**

**4. Develop a definitive transition plan**

- **Our team has been meeting regularly with the transition team and discussing our ongoing activities to ensure a smooth transition. We intend to have a fully functioning TARP organization in place as the new Administration takes office.**

**5. Expedite hiring efforts to ensure the Office of Financial Stability has the needed personnel**

- **From day one, hiring has been a key focus area for the entire TARP team and we are making concrete progress every day as we staff up our team. Our Chief Operating Officer is coordinating an intense effort with our human resources office to identify and fill critical staff needs both for the immediate and long term.**

**6. Ensure sufficient personnel are assigned to oversee performance of contractors**

- **Working with the Treasury procurement staff, we are implementing a comprehensive process for monitoring contractors. We view staffing in this area as a high priority and are bringing staff on board now to make sure it is done right.**

**7. Continue to develop a comprehensive system of internal controls**

- **Here, we appreciate the acknowledgement by GAO of the work we are doing in this area. Internal controls were one of the first areas that we addressed. For example, we contracted Price Waterhouse Coopers to help us develop a system of internal controls, and we contracted Ernst and Young to advise us on accounting procedures. While we have more to do, we are making excellent progress.**

**8. Issue final regulations on conflicts of interest**

- **Treasury submitted conflict of interest regulations to OMB for review and expects to publish them soon. We will then work diligently with our existing service providers to make any necessary adjustments to bring their mitigation plans into conformance with these regulations. In the meantime, we are proud that some of our conflict of interest requirements have been described by commentators as some of the "toughest" out there.**

**9. Institute a system to manage and monitor the mitigation of conflicts of interest**

- **Treasury is requiring firms to provide detailed information about their compliance programs, potential conflicts, and their mitigation plans *before* any contracts are signed, and we are using this information to select the best vendors. In addition, we will soon have regulations in place with rigorous monitoring and certification requirements and we are considering third party reviews and audits as well.**

The GAO report is just one example of our compliance with the tough oversight Congress has correctly established over the TARP. Treasury will continue to have an open dialogue with the GAO through regular briefings to keep them informed of our progress and welcome their additional feedback as we move forward.

Finally, the law called for the establishment of a Congressional Oversight Panel to review the TARP. That Oversight Panel was recently formed and we had our first meeting with them on Friday, November 21. We look forward to future discussions with the Panel.

**Reporting and Transparency**

Next, I would like to discuss reporting requirements and transparency. Reporting results to the Congress and the American people is a critical responsibility of the TARP. People need to see what we are doing, understand why we are doing it, and know the effects of our actions. The law defined numerous reporting requirements for the TARP, which I will review here in detail. Treasury has met all of our reporting requirements on time, and we will continue to do so. All of our reports are posted on the Treasury website.

First, the law requires Treasury to publish a Transaction Report within two business days of completing each transaction. Many of our transactions are executed on the same day and so we have published four transaction reports on October 29, November 17, 25 and 26 for the 54 transactions we have completed so far. We will issue another transaction report tomorrow for the investments completed last Friday.

Second, the law requires Treasury to publish a Tranche Report to Congress within seven days of each $50 billion commitment that is made. The comprehensive report must provide details on the following topics: the transactions made to date, the impact on the financial system, the challenges that remain, and additional actions that may be necessary to address those challenges. To date, Treasury has published three Tranche Reports on November 3 and 21 and December 2.

Finally, the law requires Treasury to provide a detailed report on the overall program within 60 days of the first exercise of the TARP purchase authority. We sent that report to Congress last Friday, December 5. It is available on our website today.

**Measuring Results**

People often ask: how do we know our program is working? First, we did not allow the financial system to collapse. That is the most direct, important information. Second, the system is fundamentally more stable than it was when Congress passed the legislation. While it is difficult to isolate one program's effects given policymakers' numerous actions, one indicator that points to reduced risk of default among financial institutions is the average credit default swap spread for the eight largest U.S. banks, which has declined more than 200 basis points since before Congress passed the EESA. Another key indicator of perceived risk is the spread between LIBOR and OIS: one-month and three-month LIBOR-OIS spreads have each declined about 100 basis points since the law was signed and about 180 basis points from their peak levels before the CPP was announced.

People also ask: when we will see banks making new loans? First, we must remember that just over half the money allocated to the Capital Purchase Program has been received by the banks. Although we are executing at record speed, it will take a few months to process all the remaining applications. The money needs to get into the system before it can have the desired effect. Second, we are still at a point of low confidence – both due to the financial crisis and the economic downturn. As long as confidence remains low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, we expect to see more credit extended.

This lending won't materialize as fast as any of us would like, but it will happen much faster as a result of having used the TARP to stabilize the system and increase capital in our banks.

We firmly believe that healthy banks of all sizes should use this program to continue making credit available in their communities. Treasury expects banks to increase their lending as a result of these investments and we firmly support the statement issued by bank regulators on November 12 to that effect. The statement emphasized that the extraordinary government actions taken to strengthen the banking system are not one-sided; all banks – not just those participating in the CPP – have benefited from the government's actions. Banks, in turn, have obligations to their communities to continue making credit available to creditworthy borrowers and to work with struggling borrowers to avoid preventable foreclosures. At the same time, Treasury believes institutions must not repeat the poor lending practices that were a root cause of today's problems.

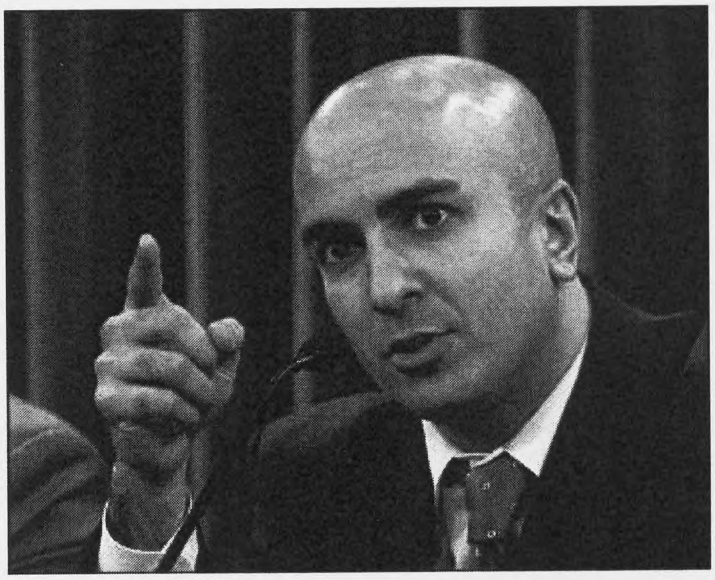
**Conclusion**

Treasury is committed to an open and transparent program with appropriate oversight. We look forward to continuing to work with the Financial Stability Oversight Board, the Inspector General, the Comptroller General, and the Congressional Oversight Panel as we execute this important program. Transparency will not only give the American people comfort in our stewardship of these funds, it will give the markets confidence that we are stabilizing and strengthening the financial system.

While we have made significant progress, we recognize challenges lie ahead. As Secretary Paulson has said, there is no single action the federal government can take to end the financial market turmoil and the economic downturn, but the new authorities Congress provided in October dramatically expanded the tools available to address the needs of our system. We are confident that we are pursuing the right strategy to stabilize the financial system and support the flow of credit to our economy. Thank you and I would be happy to take your questions.

## Treasury Official Testifies on Financial Rescue Program

12/10/2008



Interim Assistant Secretary for Financial Stability Neel Kashkari testified Wednesday before the House Committee on Financial Services at a hearing on oversight of the Troubled Asset Relief Program.

**LINKS**

- Statement
- More on TARP

## Interim Assistant Secretary for Financial Stability Neel Kashkari Testimony

12/10/2008

HP-1322

***Before the U.S. House of Representatives Financial Services Committee***

**Washington-** Good morning. Mr. Chairman, Ranking Member Bachus, and Members of the Committee, thank you for asking me to testify before you today regarding oversight of the Troubled Asset Relief Program.

We are in an unprecedented period and market events are moving rapidly and unpredictably. We at Treasury have responded quickly to adapt to events on the ground. Throughout the crisis, we have always acted with the following critical objectives in mind: one, to stabilize financial markets and reduce systemic risk; two, to support the housing market by avoiding preventable foreclosures and supporting mortgage finance; and three, to protect taxpayers. The authorities and flexibility granted to us by Congress have been essential to developing the programs necessary to meet these objectives.

Today, I will focus my remarks on compliance and oversight of the TARP and on measuring the results of this program, which are two very critical issues to the Treasury Department (Treasury). The American people provided Treasury with broad authorities to stabilize the financial system and it is essential we communicate our actions in an open and transparent manner to maintain their trust. I will describe the many steps we are taking to ensure compliance with both the letter and spirit of the law and what measurements we look at to gauge the success of our programs. A program as large and complex as the TARP would normally take many months or years to establish. But, we don't have the luxury of first building the operation, then designing our programs and then executing them. Given the severity of the financial crisis, we must build the Office of Financial Stability, design our programs, and execute them - all at the same time. We have made remarkable progress since the President signed the law only 68 days ago.

### Oversight

The first topic I will address is oversight of the TARP. In addition to the normal oversight provided by Congressional committees of jurisdiction, the Congress established four important avenues of oversight: one, the Financial Stability Oversight Board; two, the Special Inspector General; three, the Government Accountability Office; and four, the Congressional Oversight Panel. I will review Treasury's interaction with each body in detail.

First, we moved immediately to establish the Financial Stability Oversight Board, which, by law, includes: the Secretary of the Treasury, the Chairman of the Federal Reserve Board, the Chairman of the Securities and Exchange Commission, the Secretary of Housing and Urban Development, and the Director of the Federal Housing Finance Agency.

The law required the first board meeting to take place within fourteen days. We moved very quickly, and the Oversight Board met within four days. At that initial meeting, the members of the Board selected Chairman Bernanke to be Chairman of the Oversight Board. The law requires the Board to meet once a month, but it has already met four times in the just two months since the law was signed, with numerous staff calls between meetings, and expects to meet again this week.

We have also posted the bylaws and minutes of the Board meetings on Treasury's website. In addition, the Oversight Board has interacted with other oversight bodies, such as the GAO and the Congressional Oversight Panel.

Second, the law also requires appointment of a Senate-confirmed Special Inspector General to oversee the program. We welcome the Senate's confirmation on Monday December 8 of Neil M. Barofsky as the Special Inspector General. I spoke with him on Tuesday December 9 and we look forward to working closely with his office. In the interim, we have been coordinating closely with Treasury's Inspector General. We held our first meeting with Treasury's IG on Monday, October 6, and have had numerous meetings since then to keep Treasury's Inspector General apprised of all TARP activity. We look forward to continuing our active dialogue with both the Treasury IG and with the Special IG as he builds up his office.

Third, the law calls for the Government Accountability Office to establish a physical presence at Treasury to monitor the program. Treasury provided workspace for our auditors within days of the President signing the law and Secretary Paulson had his first call with the Acting Comptroller General, Gene Dodaro, on Tuesday, October 7. The Acting Comptroller General and his team met with our team for the first time on Thursday, October 9. Since then, I have participated in multiple briefings with the GAO and our respective staffs are meeting almost daily for program updates and also to review contracts.

The GAO published its first report on TARP to Congress on December 2, which the law required within 60 days of enactment. The GAO met with our team on Saturday, November 22, before their report was finalized. They provided a thorough review of the TARP programs and progress – essentially a snapshot at the 60 day mark of a large, complex project that continues to be a successful work in progress. As I noted above, given the intensity of the financial crisis, we must build our operation, design our programs and execute them all at the same time. The GAO report identified nine "areas that warrant Treasury's ongoing attention." We are pleased with our auditors' recommendations because the GAO had identified topics that we already had focused on. The report was quite helpful because it provided us with thoughtful, independent verification that Treasury is, indeed, focused on the right topics and Treasury agrees with the GAO on the importance of these issues.

Given the importance of the GAO's feedback, I want to spend a few minutes going through the nine areas that GAO identified and describe what we are doing in each case:

**1. Monitoring and reporting of financial institutions activities**

As the report indicated, given the number and variety of financial stability actions being put in place by multiple entities, it will be challenging to view the impact of the Capital Purchase Program in isolation and at the institutional level. Moreover, each individual financial institution's circumstances are different, making comparisons challenging at best, and it is difficult to track where individual dollars flow through an organization. Nonetheless, we are working with the banking regulators to develop appropriate measurements and we are focused on determining the extent to which the CPP is having its desired effect.

**2. Compliance of CPP participants with program requirements**

The key first step to effective compliance was developing effective program agreements and we have already accomplished that for publicly traded institutions and most private institutions. The CPP agreements are designed to require that the participants comply fully with the executive compensation restrictions set out by Congress in the legislation. We are now developing procedures to ensure that compliance with these restrictions is maintained.

**3. Formalize existing communication strategies to keep people informed about our strategy**

Treasury recognizes the importance of a more comprehensive communication strategy and we are looking at ways to enhance our communications, while recognizing that the TARP program is just one piece of a comprehensive response to the financial market crisis. Very detailed updates, such as this testimony, are part of that strategy.

**4. Develop a definitive transition plan**

Our team has been meeting regularly with the transition team and discussing our ongoing activities to ensure a smooth transition. We intend to have a fully functioning TARP organization in place as the new Administration takes office.

**5. Expedite hiring efforts to ensure the Office of Financial Stability has the needed personnel**

From day one, hiring has been a key focus area for the entire TARP team and we are making concrete progress every day as we staff up our team. Our Chief Operating Officer is coordinating an intense effort with our human resources office to identify and fill critical staff needs both for the immediate and long terms.

**6. Ensure sufficient personnel are assigned to oversee performance of contractors**

Working with the Treasury procurement staff, we are implementing a comprehensive process for monitoring contractors. We view staffing in this area as a high priority and are bringing staff on board now to make sure it is done right.

**7. Continue to develop a comprehensive system of internal controls**

Here, we appreciate the acknowledgement by GAO of the work we are doing in this area. Internal controls were one of the first areas that we addressed. For example, we contracted Price Waterhouse Coopers to help us develop a system of internal controls, and we contracted Ernst and Young to advise us on accounting procedures. While we have more to do, we are making excellent progress.

**8. Issue final regulations on conflicts of interest**

Treasury has drafted conflict of interest regulations and expects to publish them soon. We will then work diligently with our existing service providers to make any necessary adjustments to bring their mitigation plans into conformance with these regulations. In the meantime, Treasury is confident that our conflict of interest requirements are some of the toughest out there.

**9. Institute a system to manage and monitor the mitigation of conflicts of interest**

Treasury is requiring firms to provide detailed information about their compliance programs, potential conflicts, and their mitigation plans *before* any contracts are signed, and we are using this information to select the best vendors. In addition, we will soon have regulations in place with rigorous monitoring and certification requirements and we are considering third party reviews and audits as well.

The GAO report is just one example of our compliance with the tough oversight Congress has appropriately established over the TARP. Treasury will continue to have an open dialogue with the GAO through regular briefings to keep them informed of our progress and welcome their additional feedback as we move forward.

Finally, the law called for the establishment of a Congressional Oversight Panel to review the TARP. That Oversight Panel was recently formed and we had our first meeting with its initial members on Friday, November 21. We look forward to future discussions with the Panel.

**Reporting and Transparency**

Next, I would like to discuss reporting requirements and transparency. Reporting results to the Congress and the American people is a critical responsibility of the TARP. People need to see what we are doing, understand why we are doing it, and know the effects of our actions. The law defined numerous reporting requirements for the TARP, which I will review here in detail. Treasury has met all of our reporting requirements on time, and we will continue to do so. All of our reports are posted on the Treasury website.

First, the law requires Treasury to publish a Transaction Report within two business days of completing each transaction. Many of our transactions are executed on the same day and so we have published four transaction reports on October 29, November 17, 25 and 26 for the 54 transactions we have completed so far. We will issue another transaction report tomorrow for the investments completed last Friday.

Second, the law requires Treasury to publish a Tranche Report to Congress within 7 days of each $50 billion commitment that is made. The comprehensive report must provide details on the following topics: the transactions made to date, the impact on the financial system, the challenges that remain, and additional actions that may be necessary to address those challenges. To date, Treasury has published three Tranche Reports on November 3 and 21 and December 2.

Finally, the law requires Treasury to provide a detailed report on the overall program within 60 days of the first exercise of the TARP purchase authority. We sent that report to Congress last Friday, December 5, and it is available on our website.

**Measuring Results**

People often ask: how do we know our program is working? First, we did not allow the financial system to collapse. That is the most direct, important information. Second, the system is fundamentally more stable than it was when Congress passed the legislation. While it is difficult to isolate one program's effects given policymakers' numerous actions, one indicator that points to reduced risk of default among financial institutions is the average credit default swap spread for the eight largest U.S. banks, which has declined more than 200 basis points since before Congress passed the EESA. Another key indicator of perceived risk is the spread between LIBOR and OIS: 1 month and 3-month LIBOR-OIS spreads have each declined about 100 basis points since the law was signed and about 180 basis points from their peak levels before the CPP was announced.

People also ask: when we will see banks making new loans? First, we must remember that just over half the money allocated to the Capital Purchase Program has been received by the banks. Although we are executing at record speed, it will take a few months to process all the remaining applications. The money needs to get into the system before it can have the desired effect. Second, we are still at a point of low confidence – both due to the financial crisis and the economic downturn. As long as confidence remains low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, we expect to see more credit extended.

The increased lending that is vital to our economy will not materialize as fast as any of us would like, but it will happen much faster as a result of having used the TARP to stabilize the system and increase capital in our banks.

We firmly believe that healthy banks of all sizes should use this program to continue making credit available in their communities. Treasury expects banks to continue their lending in a safe and sound manner as a result of these investments and we firmly support the statement issued by bank regulators on November 12 to that effect. The statement emphasized that the extraordinary government actions taken to strengthen the banking system are not one-sided; all banks – not just those participating in the CPP – have benefited from the government's actions. Banks, in turn, have obligations to their communities to continue making credit available to creditworthy borrowers and to work with struggling borrowers to avoid preventable foreclosures. At the same time, Treasury believes institutions must not repeat the poor lending practices that were a root cause of today's problems.

In addition, we are actively engaged with regulators to determine the best way to monitor CPP investments and bank lending. We may utilize a variety of supervisory information for insured depositories, including existing Home Mortgage Disclosure Act (HMDA) data, Community Reinvestment Act (CRA) data, call report data, examination information contained in the CRA Public Evaluations, as well as broader financial conditions.

**Conclusion**

Treasury is committed to an open and transparent program with appropriate oversight. We look forward to continuing to work with the Financial Stability Oversight Board, the Special Inspector General, the Comptroller General, and the Congressional Oversight Panel as we execute this important program. Transparency will not only give the American people comfort in our stewardship of these funds, it will give the markets confidence that we are stabilizing and strengthening the financial system.

While we have made significant progress, we recognize challenges lie ahead. As Secretary Paulson has said, there is no single action the federal government can take to end the financial market turmoil and the economic downturn, but the new authorities that you and your colleagues provided in October dramatically expanded the tools available to address the needs of our system. We are confident that we are pursuing the right strategy to stabilize the financial system and support the flow of credit to our economy. Thank you and I would be happy to take your questions.

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

12/10/2008

HP-1323

**Washington, DC**--The Treasury Department today released its Semiannual Report on International Economic and Exchange Rate Policies. The report, along with past reports and the authorizing language, can be found at: http://www.treasury.gov/offices/international-affairs/economic-exchange-rates/.

## Under Sec Levey Speaks on Iran

12/11/2008

Under Secretary for Terrorism and Financial Intelligence Stuart Levey delivered remarks and participated in a panel discussion Thursday at the Woodrow Wilson International Center for Scholars. He discussed the Treasury Department's campaign to warn the world about how Iran's threat to our security also poses a threat to the integrity of the international financial system. "Financial measures targeted at Iran's nuclear and missile entities and the banks complicit in their misconduct have left Iran financially and politically isolated. International banks have largely scaled back or cut off business with Iran, and Iranian banks are viewed as pariahs in the international financial system. This has intensified a debate in Iran on whether the country's best interests lie in continued defiance and isolation," said Levey.

**LINKS**

- More on Fighting Illicit Finance

# Acting Assistant Secretary for Financial Markets Karthik Ramanathan Update on Financial Markets and Treasury Fiscal Outlook

12/10/2008

HP-1324

**New York -** Good afternoon. I'd like to thank you for this opportunity to discuss financial markets, the fiscal outlook, and what recent trends may mean for debt management. The Treasury market is the deepest, most liquid market in the world, and to maintain this status, we act in a highly transparent manner and in a way that avoids disruptions to the financial markets. As major participants in the market for Treasury securities, you need to understand our objectives and constraints as you evaluate the investment outlook. As a result, I believe our discussion will be mutually beneficial.

Without a doubt, the economic and financial landscape is evolving rapidly. In just the past four months, events have come to pass that few could have anticipated or even imagined. The Treasury began investing in Agency MBS and making investments in financial institutions. The Federal Housing Finance Agency, a newly formed and better equipped regulator, placed Freddie Mac and Fannie Mae under conservatorship. The Federal Reserve introduced a series of innovative lending and asset purchase programs while aggressively easing monetary policy. The last remaining investment banks have become bank holding companies. And, the FDIC has initiated a temporary liquidity guarantee for new bank-issued debt. Together, these events have resulted in the provision of various explicit and "effective" government guarantees for a large cross section of the United States domestic debt market.

These developments have directly affected Treasury's borrowing needs as well. The fiscal stimulus payments distributed earlier this year along with other actions to aid credit markets and promote economic recovery have added to our borrowing needs in a compressed period of time. In addition, the slowing economy and potential responses to this downturn will cause the government's borrowing needs to increase further.

The Office of Management and Budget (OMB) deficit estimate for fiscal year 2009 was $488 billion in mid-July, very similar to private sector estimates at the time. In February 2009, OMB will release the Annual Budget with the Administration's revised fiscal year 2009 deficit forecast as well as the five year outlook. In the meantime, private sector estimates of the budget deficit have risen given the possibility of further economic deterioration and subsequent spending on economic recovery programs.

While there is generally variation in market participants' deficit estimates, this year the range is wider than in recent years. At this point, most estimates fall within a $500 billion range – nearly the size of last year's entire deficit. More importantly to investors, estimates of net marketable borrowing vary commensurately. Recent market estimates have suggested $1.5 trillion in net marketable borrowing in fiscal year 2009, with some raising the possibility of net marketable borrowing in excess of $2 trillion. While this uncertainty remains, it is our responsibility as debt managers to as transparently as possible meet these borrowing needs in the least disruptive manner.

We have responded to the increases in the government's borrowing needs in a traditional yet aggressive manner, following our principles of first increasing issuance sizes, then considering changes in frequency, and finally, considering additions to the auction calendar. This past year, we significantly increased issuance sizes of regular bills and coupons and increased issuance of cash management bills, some long-dated, to bridge low points in our cash balance. In June, we resumed issuing a monthly 52-week bill.

In addition, to address evolving challenges in a clear yet timely manner, we have issued statements regarding debt management decisions between quarterly refundings. For example, in early October, after passage of the Emergency

Economic Stabilization Act, we alerted the market that we were considering significant changes to the offering calendar, including a reintroduction of the 3-year note in November.

Just two days later, Treasury took the extraordinary step of announcing the unexpected, off-cycle reopening of four off-the-run 10-year notes. This action provided needed funds while also helping to clear the unprecedented volume of settlement fails in the Treasury financing market. The subsequent November quarterly refunding statement made clear that unscheduled reopenings would remain the exception, as they are in general contrary to Treasury's policy of regular and predictable issuance.

The statement also made evident that further improvements in resolving settlement fails would have to derive from private sector changes to trading conventions; otherwise, regulatory measures would need to be considered. Since that time, fails to deliver have declined from nearly $800 billion to less than $150 billion – a massive reduction in a very short period of time and another sign of increased efficiencies in our debt markets.

At the November refunding, we reintroduced the 3-year note to be issued on a monthly basis, added a regular second reopening of the 10-year note, and switched to quarterly new issue 30-year bonds. We also stated that we would continue to monitor projected financing needs and make adjustments as necessary, including, but not limited to, the reintroduction or establishment of other benchmark securities.

Marketable borrowing needs of $1.5 trillion can be managed with traditional approaches: increasing issuance sizes and frequencies, issuing cash management bills to bridge low points in our cash balance, and adding or reintroducing securities as necessary. Nonetheless, given the broad range of deficit estimates, Treasury needs to be prepared to meet additional financing needs if necessary. This challenge may require novel approaches to debt management. Should new approaches be adopted, Treasury would continue to strive for transparency and predictability, communicating any changes in as cogent and unambiguous a way as possible.

Market participants have proposed several ideas for addressing significant growth in net marketable borrowing needs. Some of the more conventional approaches include issuing a 7-year note on either a quarterly or monthly basis, potentially as early as February, and reopening the quarterly new issue 30-year bonds. More generally, extending the average length of the debt, given the current cyclical and future secular shifts in borrowing needs, has been suggested. While proposals such as the introduction of longer dated bonds have been raised, we need to be cognizant of the limited capacity to raise funds from such instruments and the ability of the market to effectively digest the risk inherent in the types of securities.

Other ideas that have been suggested to Treasury include introducing additional cycles of existing maturity debt such as bi-monthly 52-week bills, 2-year notes or 5-year notes. Debt repurchases for cash management purposes and a regular schedule of off-cycle reopenings of longer-dated securities have also been suggested and continue to be reviewed.

Treasury debt management requires constant reevaluation of our issuance calendar and available tools as we seek to finance the government's expenditures at the lowest cost of financing over time. However, we do not time the markets. We issue debt in both a low and high interest rate environment which helps keep the market for Treasury securities deep and liquid and enables us to attract capital in even the most challenging financial market conditions. This certainty of supply results in a premium for Treasury securities which in turn reduces our borrowing costs over time.

Increasing demand for Treasuries has been aided by the decline in risk appetite by both traditional and non-traditional Treasury market participants and thus far the increase in Treasury issuance has been easily absorbed. The growth of Treasury and government-guaranteed debt will act as a catalyst for the return of smooth functioning credit markets and economic recovery, both of which will gain momentum as risk appetite returns.

As we move forward in thinking about how to potentially raise a significant amount of debt over a relatively short period of time, we recognize that we may need to progress beyond the conventional means of the past, particularly if our borrowing needs do indeed reach the upper end of market estimates. Nonetheless, as we continue to issue debt to finance the government's initiatives to facilitate credit market and economic recovery, we must remain aware of the possibility of a rapid increase in risk appetite if the economic outlook becomes less negative, as well as any structural shifts in the economy.

At the same, we will need to be mindful of the effects any decisions may have on the volatility of our cash balances and the maturity structure of the debt, and uncertainty surrounding the fiscal outlook. We encourage market participants and others to share their ideas and suggestions with us regarding how Treasury might most appropriately raise the funds necessary, given the constraints and uncertainty we face.

Thank you.

# Deputy Assistant Secretary Sobel Remarks on the IMF's Macroeconomic Policy Advice in Low-Income Countries

12/10/2008

HP-1325

**Washington** - Thank you for the opportunity to discuss the IMF's macroeconomic policy advice in low-income countries ( LICs). To set the context, I would like to begin by discussing our broader views on the role of the IMF in LICs, then take up macroeconomic policies in LICs, which is the principal topic of this seminar, and conclude with a few comments on IMF governance and transparency.

## IMF Role in Low-Income Countries

Today's headlines are replete with discussions about the Fund's role in the global financial crisis and emerging market economies, in particular. But we should not lose sight of the Fund's important role in the low-income countries. Macroeconomic stability is a necessary but not sufficient condition for growth and poverty reduction in the LICs and the Fund has a critical role to play, consistent with its mandate, through its policy advice, technical assistance and, when needed, financing. In the final analysis, achieving sustained growth in low-income countries, which is the best recipe for reducing poverty, will require the collective efforts of the IMF, multilateral development banks, donors, and most critically, good country policies.

On the whole, I believe that the IMF has given considerable and careful thought to its role in LICs this decade, that the Fund has done a better job though further progress is needed, and that this progress is among the reasons why economic performance in many LICs has strengthened this decade.

First, it bears emphasis that the Fund's role in low-income countries is multi-dimensional. Its role is not just about lending, even though there has been a tendency in recent decades to over-emphasize the Fund's lending role. This tendency was seen in the large number of LICs with a continuous series of programs, in which IMF debt was built up and rolled over again and again, while underlying economic conditions registered insufficient gains.

The IMF's workhorse lending facility for LICs, the Poverty Reduction and Growth Facility lends to poor countries without reference to their actual balance of payments need. Instead, the PRGF is provided on a standard of a "protracted" balance of payments need, which is vague. Thus, in contrast to a middle income country's relationship with the Fund, poor countries can borrow from the IMF even after macroeconomic stability and external viability have been achieved. PRGF support is also less concessional than that of the MDBs. Over time, this "prolonged use" of what should have been temporary balance of payments support, not only contributed to the build-up of debt, but may have weakened country ownership of macroeconomic policies and blurred the line between the IMF's balance of payments financing and the longer-term development financing provided by others.

In recent years the IMF has made progress in overcoming this unhealthy over-reliance on lending. Economic performance in Heavily Indebted Poor Countries has improved and the HIPC and Multilateral Debt Relief initiatives cleansed the slate for these countries with unsustainable debts, reducing the pressures to continually roll over IMF debt coming due. These debt relief initiatives are to be welcomed. But they should be accompanied by changes in the IMF's approach to lending in LICs to avoid a return to serial IMF programs and re-accumulation of poor country debt to the Fund. Furthermore, debt relief is not a panacea and it is no substitute for the sound policies and new development resources that are needed for sustained growth and poverty reduction.

The IMF has also created new instruments for its LIC work. The Policy Support Instrument provides a path for graduation from serial IMF borrowing programs, while offering the policy advice and signal to donors and markets for which some countries had an ongoing need.

The Fund recently created an "Exogenous Shocks Facility" (ESF) for LICs, which provides front-loaded financing with a lower standard for adjustment. Countries do experience shocks that may be exogenous and result in temporary balance of payments financing needs. But history teaches us that: one cannot anticipate ex ante whether a shock is temporary; shocks often are longer lasting; ultimately adjustment is required; and over-reliance on financing for persisting or recurring shocks can contribute to the build-up of unsustainable debt. Hence, caution needs to be taken so that implementation of the ESF does not upset the proper and delicate balance between financing and adjustment and result in a renewed cycle in the build-up of unsustainable debt.

This ESF, however, employs an "actual" balance of payments need test, which is to be welcomed. Going forward, we would like to see the IMF further target its lending activity in low-income countries and provide financing only intermittently when there is an "actual balance of payments need," as the Fund does in middle-income countries.

Second, we strongly believe that the IMF should stick to its core competencies of fiscal, monetary, financial sector and exchange rate policies, and structural reforms that are directly relevant to macroeconomic stability. Longer-term structural issues critical to development, such as civil service reform and improving the investment climate, are important, but they are not within the mandate of the IMF. The IMF should resist the well-intentioned temptation to expand its activities to fill gaps not in its core competency.

In summary, the IMF has an important, but limited role to play in LICs, in collaboration with country policies, donors and MDBs. This role should focus on promoting macroeconomic stability through the IMF's advice and assistance in core areas and through financing to meet actual balance of payments needs on an intermittent basis. Macroeconomic stability is not the whole picture. But it is necessary if low-income countries hope to sustain high rates of growth and durable reductions in poverty.

**IMF Macroeconomic Policies in Developing Countries**

A central question posed in this seminar is whether the IMF has unduly constrained public spending on health and education in low-income countries. Having re-read some of the literature ahead of this seminar let me observe that the debate on this topic raises complex issues for which often there are no easy answers. We are grateful, however, that this debate has benefited from the contributions of talented analysts from many quarters who have offered useful insights and helped define the issues. Many of the protagonists are here today. The NGO community, through its work in the field, brought many of these issues to public light. The IMF staff developed new tools for analyzing the issues, including the "spend and absorb" framework. The IMF's Independent Evaluation Office and a taskforce headed by the Center for Global Development have offered constructive analysis and recommendations. These contributions have helped lay a foundation for narrowing differences, making significant progress on these issues, shaping U.S. thinking, and most importantly strengthening the Fund's role in LICs. By virtue of this ongoing collaboration, it is our hope that more progress will be made in the future.

As the IMF assists countries in navigating through these difficult policy choices, it is important to keep several thoughts in mind:

· First, macroeconomic stability matters greatly. This decade, many countries have strengthened their policy frameworks, contributing to stronger growth, lower inflation, rising investor confidence and reduced poverty. These hard-won gains must be safeguarded. There are two implications I would underscore. Fiscal discipline and debt sustainability are essential. Countries must live within a sustainable envelope. Proposals that the IMF implement blanket exemptions of health and education spending from overall fiscal targets are unrealistic. Also, inflation has real costs for the poor, who have the least ability to hedge against the erosion of their living standards. One can debate whether economic incentives are significantly undermined by an inflation rate in the low or slightly higher single digits. But the reality is often more complex. Unfortunately, many low-income countries have a history of poor policy choices, including on monetary policy management, which undermined macroeconomic stability and the potential for high rates of growth.

· Second, the composition of spending is important. Microeconomic absorptive capacity issues and spending composition can be more binding than macroeconomic constraints. These issues are outside the IMF's mandate and expertise, yet they must necessarily inform macroeconomic policy choices. The record of public expenditure management in many low-income countries has been poor, but important progress is being made in some. The IMF has been accused of "assuming the worst" on absorptive capacity, but we are not convinced such a sweeping accusation is fair. Certainly the Fund should take into account available information – positive and negative -- but in the end these are complex issues with risks on both sides. Prudence in such circumstances should not be under-rated.

· Third, ideally aid should be fully spent and absorbed with central banks and finance ministries acting in coordination. But as we all know, the ideal is not always reality. Clearly, LICs with relatively stable price levels, low levels of debt, adequate foreign exchange reserves, fiscal space and sound public management – the so-called "mature stabilizers" -- are best positioned to fully spend and absorb aid. But not all countries are mature stabilizers and not all countries have fiscal space and adequate reserves. A country that has not created fiscal or foreign exchange shock absorbers, when hit by a shock, can see a rapid erosion of living standards. Deviations from the full spend and absorb approach, while countries put in place stronger policies for stability, may at times be appropriate. The IMF should support these countries' public financial management capacity through technical assistance and work in setting fiscal standards.

· Fourth, aid volatility is a reality. This fact has a bearing on the shock absorber question above. Some argue that IMF projections of aid flows and macroeconomic outcomes have a self-fulfilling pessimistic bias that deters aid, and others suggest that the IMF should do more to catalyze donor aid. We believe that Fund projections for aid inflows should be guided by realism. We support the IMF working with countries on alternative aid inflow scenarios that are realistic, while recognizing that such work can be staff-intensive and IMF staff resources are finite.

· Fifth, countries need to own their policy choices. Ownership is critical. This is the country's responsibility and not a task the IMF can assume. The process of inter-ministerial budget formulation and execution in low-income countries is often fraught with weaknesses. While the IMF can help build capacity, it is unrealistic to expect the IMF to fix problems of health ministries which lack capacity or leadership to effectively engage in the inter-ministerial budget process. Similarly, the IMF should not be blamed if country authorities fail to make their budget priorities reflect their stated policies on health and education.

In short, we recognize that IMF policy advice and conditions have in some cases constrained public investment with unintended impacts on health and education spending. The IMF is not perfect. But in many cases, the need to foster macroeconomic stability may offer a valid reason for overall fiscal constraint, which has implications for public investment spending. Further, we believe the IMF has generally made efforts in recent years to respond in a reasonable fashion as new evidence and ideas on aid inflows and macroeconomic polices have emerged, by introducing greater flexibility into its advice and conditionality, particularly for "mature stabilizers."

From our perspective on the IMF Board, we have followed these issues closely and change has occurred.

· IMF policy advice and programs are now explicitly aimed at helping countries spend and absorb aid more fully, with greater attention to coordination of fiscal and monetary policies, which was identified as a weakness.

- The IMF has loosened inflation targets when appropriate, especially to accommodate first-round impacts of commodity price increases.

- The Fund has limited the use of wage bill ceilings to cases where out-of-control wage spending threatens macroeconomic stability.

- IMF programs employ a more balanced approach to "adjusters" to macro targets, permitting higher domestic spending in response to aid shortfalls.

- Fund staff is expected to avoid pessimism in their aid projections, including by taking into account that donors often cannot make firm commitments for the out-years.

- The Fund's on-going work to track pro-poor expenditures, and in some cases target floors for such expenditures, has helped support health and education spending in program countries.

The United States has supported these changes. We have worked in the Board to see that these policies are translated into action in country cases, where they impact the welfare of citizens in immediate and sustained ways. Our door remains open to NGOs with concerns about IMF policies or country cases, and we encourage the IMF to remain vigilant and respond to new evidence and information, and to criticisms, external and internal.

**Democracy Issues**

Finally, I would like to touch on a set of issues, which I categorize under the heading of "democracy" – or how the IMF is organized to be responsive and accountable to its broad membership and external stakeholders.

The IMF is a shareholder-based institution and we believe this system is a source of strength for the Fund, which has helped make it more effective and able to respond quickly to events in the global economy. Yet, the Fund's structure should ensure that LICs have a strong "voice" in the institution. Several features are key in this regard. The Fund largely operates on the basis of consensus, and formal votes usually are not taken. The recent IMF quota reform, agreed in April, provides for a tripling of each country's "basic votes", boosting the voting shares of LICs, and for an additional Alternate Executive Director for the two African constituencies in the IMF Board. The United States also led the effort to modernize the system of country weights – or "quotas" – so that the IMF's governance structure better reflects the realities of today's global economy. The quota reform, while not as ambitious as we would have preferred, is a step in the right direction and boosts the shares of dynamic emerging market economies. The United States also backs reducing the size of the IMF Board from 24 chairs to 20, while protecting the chairs of emerging and developing countries.

The IMF has made remarkable strides over the last decade toward becoming more transparent. Whereas in the early mid-1990s very little was published, now most loan documents, policy papers and country surveillance reports are available on the IMF's web site. The United States was a strong advocate for transparency from the very start. We support further progress, both in disclosure of basic surveillance documents and in more prompt publication of the Fund Board's minutes.

We also have encouraged the Fund to reach out to ensure that external stakeholders' voices are heard on IMF policy and country issues. We have taken note of NGO calls for the IMF to make draft policy papers and technical assistance reports public, and to engage in broader consultations with external stakeholders. We have recently supported presumed dissemination of TA reports to donors and IMF Board members. We also supported public disclosure of TA reports, but getting a majority for that will be a longer-term effort. On policy issues, the circulation of draft papers has not found support in the Board. We have, though, strongly advocated that the IMF consult with external stakeholders. Outreach on policy issues by the Fund's Independent Evaluation Office, has also been worthwhile. On country matters, we support IMF staff consultations with external stakeholders including legislatures and civil society, while recognizing that IMF staff resources are finite and that some country-specific policy consultations must necessarily be confidential.

**Conclusion**

I would like to conclude by emphasizing that we will continue to closely follow the debate on macroeconomic policies in LICs. While we believe that the IMF has made good progress and responded appropriately, we cannot become complacent and we are always ready to consider new information and evidence and to advocate course corrections in IMF program design if they are merited. We urge all parties in the debate to continue to work together to help the LICs achieve better results and strengthen the Fund's role in the poorest countries.

## Treasury International Capital (TIC) Data for October

12/15/2008

**FROM THE OFFICE OF PUBLIC AFFAIRS**

*We recommend printing this release using the PDF file below.*
*To view or print the PDF content on this page, download the free* Adobe® Acrobat® Reader®.

HP-1326

Treasury International Capital (TIC) data for October 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 November, is scheduled for January 16, 2009.

Net foreign purchases of long-term securities were $1.5 billion.

- Net foreign purchases of long-term U.S. securities were negative $34.8 billion. Of this, net purchases by private foreign investors were negative $17.5 billion, and net purchases by foreign official institutions were negative $17.2 billion.

- U.S. residents sold a net $36.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been negative $13.3 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $92.4 billion. Foreign holdings of Treasury bills increased $147.4 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $207.3 billion.

Monthly net TIC flows were $286.3 billion. Of this, net foreign private flows were $274.5 billion, and net foreign official flows were $11.9 billion.

**-30-**

TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

| | | | | 12 Months Through | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2006 | 2007 | Oct-07 | Oct-08 | Jul-08 | Aug-08 | Sep-08 | Oct-08 |
| | Foreigners' Acquisitions of Long-term Securities | | | | | | | | |
| 1 | Gross Purchases of Domestic U.S. Securities | 21077.1 | 29730.6 | 28277.1 | 32847.4 | 2819.5 | 2163.9 | 3081.9 | 246 |
| 2 | Gross Sales of Domestic U.S. Securities | 19933.9 | 28714.7 | 27216.3 | 32228.3 | 2835.2 | 2169.4 | 3051.9 | 249 |
| 3 | Domestic Securities Purchased, net (line 1 less line 2) /1 | 1143.2 | 1015.9 | 1060.8 | 619.1 | -15.7 | -5.5 | 30.0 | -3 |
| 4 | Private, net /2 | 946.6 | 828.2 | 890.5 | 428.2 | -10.9 | 4.8 | 34.8 | -1 |
| 5 | Treasury Bonds & Notes, net | 125.9 | 197.9 | 222.7 | 252.8 | 24.2 | 28.0 | 15.8 | 3 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 6 | Gov't Agency Bonds, net | 193.8 | 107.0 | 117.9 | 61.8 | -23.9 | -11.0 | 14.8 | -3 |
| 7 | Corporate Bonds, net | 482.2 | 342.8 | 396.6 | 76.6 | -4.3 | -12.6 | -7.3 | -1 |
| 8 | Equities, net | 144.6 | 180.4 | 153.3 | 37.0 | -6.8 | 0.4 | 11.5 | - |
| | | | | | | | | | |
| 9 | Official, net /3 | 196.6 | 187.7 | 170.2 | 190.9 | -4.9 | -10.2 | -4.8 | -1 |
| 0 | Treasury Bonds & Notes, net | 69.6 | 3.0 | -1.3 | 110.3 | 10.1 | 4.8 | 4.9 | - |
| 1 | Gov't Agency Bonds, net | 92.6 | 119.1 | 128.4 | 3.1 | -16.2 | -13.1 | -8.7 | -1 |
| 2 | Corporate Bonds, net | 28.6 | 50.6 | 43.5 | 45.5 | 0.2 | -0.5 | -1.2 | [illegible] |
| 3 | Equities, net | 5.8 | 15.1 | -0.5 | 32.1 | 1.1 | -1.4 | 0.0 | - |
| | | | | | | | | | |
| 4 | Gross Purchases of Foreign Securities from U.S. Residents | 5515.9 | 8187.6 | 7893.3 | 8253.5 | 719.4 | 585.5 | 710.0 | 63 |
| 5 | Gross Sales of Foreign Securities to U.S. Residents | 5766.8 | 8411.9 | 8208.7 | 8175.5 | 685.2 | 565.2 | 674.6 | 59 |
| 6 | Foreign Securities Purchased, net (line 14 less line 15) /4 | -250.9 | -224.3 | -315.4 | 78.0 | 34.2 | 20.2 | 35.4 | 3 |
| | | | | | | | | | |
| 7 | Foreign Bonds Purchased, net | -144.5 | -129.0 | -169.3 | 69.6 | 17.3 | 17.4 | 37.8 | 1 |
| 8 | Foreign Equities Purchased, net | -106.5 | -95.3 | -146.2 | 8.4 | 16.9 | 2.9 | -2.4 | 2 |
| | | | | | | | | | |
| 9 | Net Long-Term Securities Transactions (line 3 plus line 16): | 892.3 | 791.6 | 745.3 | 697.118.4 | 14.8 | 65.4 | 1.5 | |
| | | | | | | | | | |
| 0 | Other Acquisitions of Long-term Securities, net /5 | -174.6 | -235.1 | -245.8 | -205.0-14.5 | -12.9 | -13.5 | -14.8 | |
| | | | | | | | | | |
| 1 | Net Foreign Acquisition of Long-Term Securities (lines 19 and 20) : | 717.7 | 556.5 | 499.6 | 492.13.9 | 1.9 | 51.9 | -13.3 | |
| | | | | | | | | | |
| 2 | Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6 | 146.2 | 198.6 | 160.6 | 250.615.8 | 22.2 | 13.0 | 92.4 | |
| 3 | U.S. Treasury Bills | -9.0 | 49.2 | 22.9 | 380.24.2 | 31.6 | 90.9 | 147.4 | |
| 4 | Private, net | 16.1 | 29.7 | 21.0 | 200.1 | -1.6 | 18.5 | 59.7 | 6 |
| 5 | Official, net | -25.0 | 19.5 | 1.9 | 180.1 | 5.8 | 13.1 | 31.2 | 8 |
| 6 | Other Negotiable Instruments and Selected Other Liabilities: /7 | 155.1 | 149.4 | 137.7 | -129.711.5 | | -9.4 | -77.9-55.0 | |
| 7 | Private, net | 174.9 | 73.2 | 75.2 | -70.8 | 5.1 | -1.3 | -69.5 | -1 |
| 8 | Official, net | -19.8 | 76.1 | 62.5 | -58.9 | 6.4 | -8.1 | -8.4 | -3 |
| | | | | | | | | | |
| 9 | Change in Banks' Own Net Dollar-Denominated Liabilities | 198.0 | -122.9 | -111.4 | -59.4 | -44.7-7.0 | 77.7 | 207.3 | |
| | | | | | | | | | |
| 0 | Monthly Net TIC Flows (lines 21,22,29) /8 | 1061.8 | 632.3 | 548.8 | 683.3 | -25.0 | 17.1 | 142.6 | 28 |
| | of which | | | | | | | | |
| 1 | Private, net | 923.0 | 345.2 | 318.0 | 409.8 | -43.1 | 19.6 | 125.3 | 27 |
| 2 | Official, net | 138.9 | 287.1 | 230.7 | 273.5 | 18.1 | -2.5 | 17.3 | 1 |

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

Includes international and regional organizations

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.

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.

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.

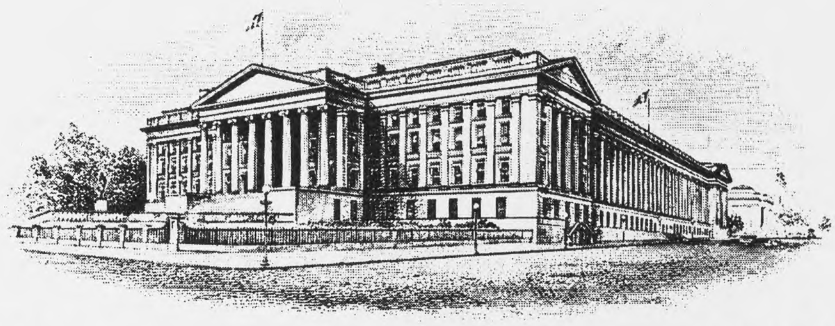
These are primarily data on monthly changes in banks' and broker/dealers' custody liabilities. Data on custody claims are collected quarterly and published in the Treasury Bulletin and the TIC website.

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

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.

## REPORTS

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



# DEPARTMENT OF THE TREASURY
## OFFICE OF PUBLIC AFFAIRS

**December 15, 2008**
**EMBARGOED UNTIL 9:00 AM**

**Contact: Rob Saliterman**
**(202) 622-2960**

**TREASURY INTERNATIONAL CAPITAL DATA FOR OCTOBER**

Treasury International Capital (TIC) data for October 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 November, is scheduled for January 16, 2009.

Net foreign purchases of long-term securities were $1.5 billion.

- Net foreign purchases of long-term U.S. securities were negative $34.8 billion. Of this, net purchases by private foreign investors were negative $17.5 billion, and net purchases by foreign official institutions were negative $17.2 billion.

- U.S. residents sold a net $36.3 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been negative $13.3 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities increased $92.4 billion. Foreign holdings of Treasury bills increased $147.4 billion.

Banks' own net dollar-denominated liabilities to foreign residents increased $207.3 billion.

Monthly net TIC flows were $286.3 billion. Of this, net foreign private flows were $274.5 billion, and net foreign official flows were $11.9 billion.

## TIC Monthly Reports on Cross-Border Financial Flows

(Billions of dollars, not seasonally adjusted)

| | | | | 12 Months Through | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2006 | 2007 | Oct-07 | Oct-08 | Jul-08 | Aug-08 | Sep-08 | Oct-08 |
| | **Foreigners' Acquisitions of Long-term Securities** | | | | | | | | |
| 1 | Gross Purchases of Domestic U.S. Securities | 21077.1 | 29730.6 | 28277.1 | 32847.4 | 2819.5 | 2163.9 | 3081.9 | 2463.0 |
| 2 | Gross Sales of Domestic U.S. Securities | 19933.9 | 28714.7 | 27216.3 | 32228.3 | 2835.2 | 2169.4 | 3051.9 | 2497.8 |
| 3 | **Domestic Securities Purchased, net** (line 1 less line 2) /1 | **1143.2** | **1015.9** | **1060.8** | **619.1** | **-15.7** | **-5.5** | **30.0** | **-34.8** |
| 4 | **Private, net /2** | **946.6** | **828.2** | **890.5** | **428.2** | **-10.9** | **4.8** | **34.8** | **-17.5** |
| 5 | Treasury Bonds & Notes, net | 125.9 | 197.9 | 222.7 | 252.8 | 24.2 | 28.0 | 15.8 | 35.7 |
| 6 | Gov't Agency Bonds, net | 193.8 | 107.0 | 117.9 | 61.8 | -23.9 | -11.0 | 14.8 | -33.5 |
| 7 | Corporate Bonds, net | 482.2 | 342.8 | 396.6 | 76.6 | -4.3 | -12.6 | -7.3 | -13.8 |
| 8 | Equities, net | 144.6 | 180.4 | 153.3 | 37.0 | -6.8 | 0.4 | 11.5 | -6.0 |
| 9 | **Official, net /3** | **196.6** | **187.7** | **170.2** | **190.9** | **-4.9** | **-10.2** | **-4.8** | **-17.2** |
| 10 | Treasury Bonds & Notes, net | 69.6 | 3.0 | -1.3 | 110.3 | 10.1 | 4.8 | 4.9 | -1.1 |
| 11 | Gov't Agency Bonds, net | 92.6 | 119.1 | 128.4 | 3.1 | -16.2 | -13.1 | -8.7 | -16.7 |
| 12 | Corporate Bonds, net | 28.6 | 50.6 | 43.5 | 45.5 | 0.2 | -0.5 | -1.2 | 0.7 |
| 13 | Equities, net | 5.8 | 15.1 | -0.5 | 32.1 | 1.1 | -1.4 | 0.0 | -0.1 |
| 14 | Gross Purchases of Foreign Securities from U.S. Residents | 5515.9 | 8187.6 | 7893.3 | 8253.5 | 719.4 | 585.5 | 710.0 | 635.9 |
| 15 | Gross Sales of Foreign Securities to U.S. Residents | 5766.8 | 8411.9 | 8208.7 | 8175.5 | 685.2 | 565.2 | 674.6 | 599.6 |
| 16 | **Foreign Securities Purchased, net** (line 14 less line 15) /4 | **-250.9** | **-224.3** | **-315.4** | **78.0** | **34.2** | **20.2** | **35.4** | **36.3** |
| 17 | Foreign Bonds Purchased, net | -144.5 | -129.0 | -169.3 | 69.6 | 17.3 | 17.4 | 37.8 | 14.5 |
| 18 | Foreign Equities Purchased, net | -106.5 | -95.3 | -146.2 | 8.4 | 16.9 | 2.9 | -2.4 | 21.8 |
| 19 | **Net Long-Term Securities Transactions** (line 3 plus line 16): | **892.3** | **791.6** | **745.3** | **697.1** | **18.4** | **14.8** | **65.4** | **1.5** |
| 20 | **Other Acquisitions of Long-term Securities, net /5** | **-174.6** | **-235.1** | **-245.8** | **-205.0** | **-14.5** | **-12.9** | **-13.5** | **-14.8** |
| 21 | **Net Foreign Acquisition of Long-Term Securities** (lines 19 and 20): | **717.7** | **556.5** | **499.6** | **492.1** | **3.9** | **1.9** | **51.9** | **-13.3** |
| 22 | **Increase in Foreign Holdings of Dollar-denominated Short-term U.S. Securities and Other Custody Liabilities: /6** | **146.2** | **198.6** | **160.6** | **250.6** | **15.8** | **22.2** | **13.0** | **92.4** |
| 23 | **U.S. Treasury Bills** | **-9.0** | **49.2** | **22.9** | **380.2** | **4.2** | **31.6** | **90.9** | **147.4** |
| 24 | Private, net | 16.1 | 29.7 | 21.0 | 200.1 | -1.6 | 18.5 | 59.7 | 63.6 |
| 25 | Official, net | -25.0 | 19.5 | 1.9 | 180.1 | 5.8 | 13.1 | 31.2 | 83.8 |
| 26 | **Other Negotiable Instruments and Selected Other Liabilities: /7** | **155.1** | **149.4** | **137.7** | **-129.7** | **11.5** | **-9.4** | **-77.9** | **-55.0** |
| 27 | Private, net | 174.9 | 73.2 | 75.2 | -70.8 | 5.1 | -1.3 | -69.5 | -17.1 |
| 28 | Official, net | -19.8 | 76.1 | 62.5 | -58.9 | 6.4 | -8.1 | -8.4 | -37.9 |
| 29 | **Change in Banks' Own Net Dollar-Denominated Liabilities** | **198.0** | **-122.9** | **-111.4** | **-59.4** | **-44.7** | **-7.0** | **77.7** | **207.3** |
| 30 | **Monthly Net TIC Flows** (lines 21,22,29) /8 | **1061.8** | **632.3** | **548.8** | **683.3** | **-25.0** | **17.1** | **142.6** | **286.3** |
| | **of which** | | | | | | | | |
| 31 | Private, net | 923.0 | 345.2 | 318.0 | 409.8 | -43.1 | 19.6 | 125.3 | 274.5 |
| 32 | Official, net | 138.9 | 287.1 | 230.7 | 273.5 | 18.1 | -2.5 | 17.3 | 11.9 |

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

/2 Includes international and regional organizations

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

## Treasury Welcomes Entry Into Force of New Tax Treaties, Protocol

12/15/2008

HP-1327

**Washington -** The Treasury Department announced today that a tax treaty protocol and two new tax treaties have entered into force.

New tax treaties (and accompanying protocols) with Bulgaria and Iceland and a protocol amending the existing tax treaty with Canada entered into force December 15, 2008. All are generally effective for tax years beginning on or after January 1, 2009. Certain provisions of the treaties and protocols, however, have different effective dates.

Provisions of the protocol with Canada, which amends the existing treaty (signed in 1980 and previously amended), include:

- Phased-in elimination of source-country withholding taxes on interest; and
- Mandatory binding arbitration of certain cases that cannot be resolved by the competent authorities within a specific period.

Provisions of the new treaty and protocol with Iceland, which replace the existing treaty (signed in 1975), include:

- Reductions of source-country withholding taxes on certain dividends; and
- Modern limitation on benefits provisions.

Provisions of the new treaty and protocols with Bulgaria include:

- Reductions of source-country withholding taxes on dividends, interest, and royalties;
- Elimination of source-country withholding taxes on interest paid to financial institutions and on interest and dividends paid to pension funds; and
- Modern limitation of benefits provisions.

The treaty and first protocol with Bulgaria was signed in Washington on February 23, 2007, and the second protocol with Bulgaria was signed in Sofia on February 26, 2008; the protocol with Canada was signed in Chelsea on September 21, 2007; and the treaty and protocol with Iceland was signed in Washington on October 23, 2007. The Senate approved the new treaties and protocols on September 23, 2008.

## U.S. Government Releases FY 2008 Financial Report

12/15/2008

HP-1328

**Washington -** The Treasury Department and the Office of Management and Budget today released the Fiscal Year 2008 Financial Report of the United States Government. The report details the U.S. government's current financial position, as well as its short-term and long-term financial outlook, complementing the President's Budget to be released in the spring of 2009.

"Throughout this unprecedented year, the Treasury Department has worked to achieve and maintain the stability of the financial system with short-term actions, but we must not forget the long-term needs that pose a significant threat to our country's fiscal sustainability," said Treasury Secretary Henry M. Paulson, Jr. "The projected costs for Medicare, Medicaid and other social programs are much greater than the resources that will be available to pay for them. Changes are needed to ensure these programs are fiscally sustainable."

"It is without question that we face extraordinary challenges in our financial markets and the larger economy," said OMB Director Jim Nussle. "As a result, the bottom-line budget results in the short-term are sobering. It is imperative to continue to aggressively confront today's challenges. Functioning markets and a healthy economy will not only help put the federal budget back on a path towards balance, but will position us to take on inevitable future economic challenges, such as the our nation's biggest budgetary challenge, the entitlement crisis."

Revenue results in this year's Financial Report were $2.7 trillion, increasing slightly by $34 billion or just over 1 percent, compared to last year. Total costs were $3.6 trillion, an increase of $.7 trillion or 25 percent compared to last year. Net operating cost increased to $1 trillion, up from last year's net operating cost of $275.5 billion. The growth in the net operating cost resulted from the economic slowdown, the government's response to the slowdown, and significant re-estimates of the government's long-term liabilities for veterans' disability compensation benefits.

Treasury projected an estimated present value of future social insurance program expenditures for all current and future program participants to be $43 trillion. Over the next two decades, Social Security and Medicare expenditures are projected to increase from their current 8 percent of GDP to about 11 percent. Without reform, the cost of these programs is projected to approach 18 percent of GDP by 2080. Medicare, Medicaid, and Social Security accounted for 16 percent of total government expenditures 40 years ago. Today, they comprise 40 percent of all expenditures.

The report also discusses the steps the federal government has taken to restore stability to the U.S. financial system. Although recently passed housing and economic stabilization laws authorize the government to spend money in the recovery effort, the majority of those funds have yet to actually be spent and, as a result, are not and would not be reported in the government's consolidated financial statements. Amounts spent under the stabilization initiative have been and are expected to be treated as investments or loans, as the government may recover, and possibly even earn a positive return on amounts invested as economic conditions improve.

Each year, the Administration issues two reports, which detail the financial results for the

government. The President's Budget, the government's primary financial planning and control tool, describes how the government spent and plans to spend the money it collects. By comparison, the accrual-based Financial Report of the United States government includes the cost of operations, the sources used to finance those costs, how much the government owns and owes, and the outlook for its social insurance programs.

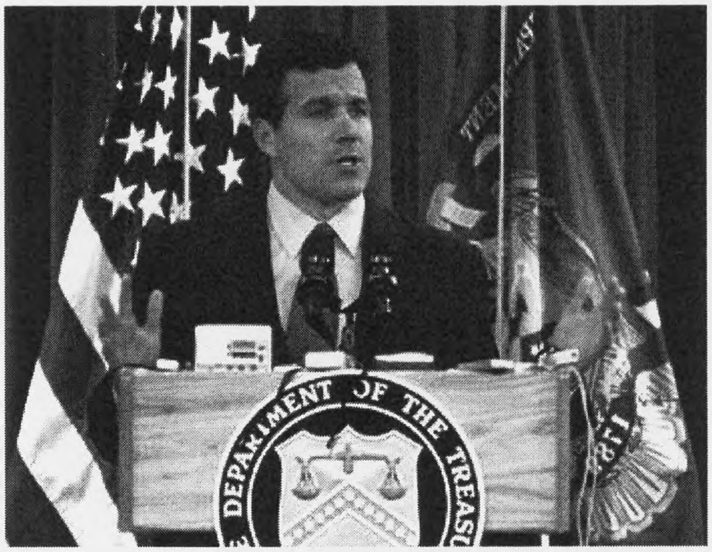
Although certain accounting and internal control challenges continue to prevent the Government Accountability Office from rendering an unqualified opinion on the government's consolidated financial statements, significant progress was made in fiscal year 2008 to improve the reliability of the government's financial information. Of the major federal agencies, 20 received clean opinions, one more than reported last year and the highest total in the past six years. The State Department intends to re-issue its audited financial statements with a clean opinion for fiscal year 2008 based on the updated report its auditor issued on December 12. The information on the updated audit report was not available in time to include in the final version of the Financial Report, which reflects a fiscal year 2008 "disclaimed" opinion for the State Department.

In addition, the number of material weaknesses government-wide declined by 18 percent, from 39 to 32. This is the fifth consecutive year that material weaknesses have declined, with a nearly 50 percent decrease in weaknesses since 2001.

For the past four years, Treasury has issued the report on December 15 or the first business day following that date, well ahead of the statutory March 31 deadline. As the issues discussed in the Report affect, and should be of interest to every citizen, for the second consecutive year, the Department is also releasing an accompanying Citizen's Guide to the Financial Report. The report and the guide are available at http://www.fms.treas.gov/fr/index.html.

## Under Sec McCormick Speaks on China

12/15/2008



Under Secretary for International Affairs David H. McCormick delivered remarks Tuesday to The Asia Society in New York. He spoke on U.S.-Asia economic relations and the importance of global trade and investment flows. "Openness to international trade and investment has been and will continue to be the linchpin of economic growth for the global economy," said McCormick.

**LINKS**

- Remarks

# Under Secretary for International Affairs David H. McCormick Remarks

12/16/2008

HP-1329

***On U.S.-Asia Economic Relations at the Asia Society in New York***

**New York–** This is an unprecedented time for the global economy. The downturn has been swift and severe, and the turmoil has spread quickly around the world. Countries across the globe have taken action to minimize the impact of the crisis and to reform the global financial system to guard against such challenges in the future. While the outlook for 2009 is exceptionally challenging, the coordinated actions of U.S. policymakers, and many of their international counterparts, have decreased the chances of systemic collapse that appeared all-too-possible several months ago.

We have witnessed a unique degree of coordination as policymakers across the global economy have taken steps to stabilize the system. In early October, the Group of Seven industrialized countries announced and are now implementing a coordinated action plan to provide liquidity to markets, protect depositors, and to strengthen confidence in financial institutions. In early November, the President hosted a Summit with the Heads of State of the Group of Twenty countries during which they committed to a comprehensive plan for the reform of the international financial system. And we have also seen a number of countries throughout Europe, Asia, and Latin America take significant fiscal actions as well as coordinated monetary policy. While financial markets have responded favorably to these efforts, there is no doubt that enormous uncertainty and challenging policy choices lie ahead.

In this context, I would like to take a step back today and consider how we got here and offer some lessons from our recent experience in combating the crisis. I will conclude with some thoughts on how the current turmoil will shape, and in some ways constrain, policy choices for the next chapter of economic challenges facing the United States and Asia.

**Global Economic Climate**

How did we get to this point? Benign economic conditions marked by low interest rates, low inflation, and less volatile asset markets, led many in the decade prior to this crisis to ignore 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 assets, continued reaching for higher gains. In response, the financial-services industry created a variety of complicated new financial products to meet this demand, and regulators and investors alike showed a growing complacency toward risk. These factors, blended together, created underlying conditions that were ripe for instability.

The imbalance between risk and reward was most evident in the U.S. housing market where lenders significantly loosened credit standards, particularly for a new generation of adjustable-rate mortgages. In the summer of 2007, these vulnerabilities in our financial system became clear as looser credit standards in the housing market, combined with an abrupt halt 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 new lending and investment necessary for continued growth.

These concerns grew as several large important financial institutions failed, or were rescued from failure. Credit markets began to freeze, and consumers and businesses around the world found it more difficult and expensive to get the credit necessary for the smooth functioning of the global financial system. The consequences of this credit crunch are still developing, but there is no doubt that economies around the world are slowing dramatically as consumer demand weakens, investments are delayed, and unemployment rises.

According to IMF projections, world growth is expected to slow from 5 percent in 2007 to 3.75 percent in 2008, and to just over 2 percent in 2009. Advanced economies, which are expected to contract by a quarter of a percent in 2009, have led the downturn. Emerging market countries in recent years, including those in Asia, have made impressive strides in strengthening their fundamentals, accelerating their economic growth and cushioning themselves against external shocks. Nevertheless, as the events of the past months have shown, emerging markets are not immune from the global financial stress. Emerging markets as a whole are still expected to grow, but more slowly as the IMF has revised its 2009 growth projections for emerging economies from 5.1 percent to 4.1 percent.

Slowing global economic demand poses daunting challenges for many Asian economies, especially those more dependent on export-led growth. While most Asian countries have had relatively limited direct exposure to mortgage-related assets, deleveraging by foreign investors and slowing external demand have simultaneously created tighter credit conditions and lower expectations for growth. This has led to heightened volatility in equity, money, and debt markets.

These developments put to rest the notion of "decoupling," which is the idea that the economic growth of emerging markets in Asia, or other parts of the world, is independent from that of the developed world. As the current crisis makes painfully clear, in this era of global trade and investment, our economies – and our prosperity – on both sides of the Pacific are inextricably linked. In order to maintain strong economic growth in America, we need a strong, growing Asia, just as Asia's success depends on a thriving United States. This reality puts a premium on our ability to cooperate fully to restore confidence to global financial markets and return our economies to robust growth.

**Lessons for U.S. - Asia Economic Engagement**

The U.S.-Asia economic partnership can be strengthened if we heed the lessons we have already learned from the ongoing turmoil. Undoubtedly, much of the current situation will be best understood with the benefit of time, but today I would like to discuss five lessons that are already coming into focus and consider their implications for the choices policymakers will make in the future.

First, openness to international trade and investment has been and will continue to be the linchpin of economic growth for the global economy. The United States and Asia are more dependent upon one another for our economic growth and prosperity than at any time in our respective histories. In the current climate of anxiety and uncertainty, policymakers must ensure strong communication and coordination, avoid beggar-thy-neighbor policies, and guard against protectionism.

Fortunately, as the crisis has worsened, global policymakers have responded with coordinated policy action. The Group of Seven action plan I mentioned earlier aims to restore the flow of credit by securing interbank lending, and coordinated central bank actions have provided unprecedented levels of liquidity to the market. Bilaterally, the Strategic Economic Dialogue (SED), which has been an invaluable forum for building U.S.-China economic relations, has been especially important in strengthening our lines of communication and cooperation during the crisis. Earlier this month at the 5th SED meeting in Beijing this collaboration was apparent in a number of ways. For example, to address the acute decrease in available trade finance that has occurred as the crisis has developed, the U.S. Export-Import Bank and the Export-Import Bank of China announced that they will provide funding to support over $38 billion of finance for exports for emerging market countries. To combat short-sighted appeals for protectionism, many policymakers throughout the world have also reaffirmed their commitment to completing a successful Doha trade round and refraining from raising new barriers to trade and investment.

As a second lesson, it is also clear that as the crisis has spread to emerging markets, developed countries must act rapidly and in concert to minimize the impact on the still vulnerable populations in these countries. As is always the case, however, resources alone cannot solve problems rooted in weak policies. Therefore, before we provide financial assistance bilaterally or through the International Financial Institutions (IFIs), we must determine the underlying cause of economic vulnerability and ensure necessary corrective action to address the weakness. Lending large sums of money before assessing root causes and the appropriate policy responses can also damage the IFIs themselves, by reducing the capital available to assist other countries in need and by undermining the institutions' credibility. At a time of competing fiscal demands, we need to make sure that the finite taxpayer resources are spent wisely to enhance financial stability and spur economic growth in these important economies .

When resources are needed, however, the IFIs are a logical place to turn, and these institutions must show flexibility and adaptability to help their member countries. The IFIs must review their existing programs and resources to determine if they are adequate to meet these challenges. T he IMF currently has $150 billion in available lending capacity, for example, while the World Bank has the capacity to nearly triple current lending to $35 billion per year for the next three years. Both institutions have taken encouraging steps to develop new programs and approaches and quickly increase their commitments. The IMF recently announced the establishment of the Short-Term Liquidity Facility, which is designed to help strong-performing members facing temporary liquidity problems. The World Bank and the multilateral development banks are also developing innovative ways to strengthen country financial sectors and address potential shortfalls in trade finance. While these institutions must act quickly, we must take care not to demand that they engage in ways that go beyond their mandates or financial capacity.

Third, as the IFIs play an even more crucial role, their ambitious reform should be embraced. Further delay will only harm the effectiveness and legitimacy of the intuitions. The United States has been a leading voice on governance, making clear that these institutions must reform to remain relevant. And, as highlighted by the Leaders at the G-20 Summit, there is a growing recognition that governance issues are central to institutional legitimacy. While the recent IMF quota reform was an important step, it should have been more ambitious in ensuring emerging markets have a seat at the table that better reflects their growing economic influence in the world economy.

The United States has also strongly advocated a smaller and more focused IMF Board and called on other nations to work with us to reduce the number of chairs from 24 to 20 by 2012, with no loss in the number of emerging market or developing country chairs. In addition, the United States fully supports expanding membership in the Financial Stability Forum (FSF) to include major emerging market economies, and I am happy to report that the FSF is working at record speed on a proposal for expanded membership. Greater representation is not a one-way street, however, with greater voice and influence, emerging market countries must assume greater leadership responsibilities and act as constructive partners in these institutions.

Fourth, in developing a crisis response we must remember that the private sector must be a critical part of the solution. Government and the IFIs cannot solve this crisis alone, and they cannot and should not crowd out the private sector. To successfully navigate this crisis, the private sector must also play an active role, especially in those industries that have benefited from public sector support. In situations where government intervention is necessary, we must consider specific ways in which the private sector can assist in the recovery. For example, in the United States we have helped promote financial sector stability with direct capital injections, but ultimately it is the banks that must take these funds and resume responsible lending to consumers and businesses. Likewise, in countries with capital account pressures, banks must work responsibly to avoid exacerbating the rollover risk of a crisis-affected country. In this period of unprecedented government intervention, we must think carefully about its long-term implications and how the government can best exit over time. With this in mind, Treasury has structured its Capital Purchase Program with disincentives for long-term government ownership.

Finally, both Asia and the United States must stay focused on addressing the fundamental macroeconomic policy challenges that contributed to the crisis. Some of these challenges have been discussed for many years, with policymakers voicing concern about the buildup of global imbalances. As a result of the turmoil, we are seeing a gradual rebalancing, as the U.S. current account deficit begins to contract, and emerging markets take steps to boost domestic demand. But we must guard against the re-emergence of significant imbalances as the world economy recovers. For many in Asia, the crisis highlights the need for export driven economies to encourage robust growth of domestic demand. For Japan and many parts of Europe, it means regulatory reform to increase competition, entrepreneurial activity and investment to bring about stronger domestic-led growth. For the United States, it means boosting domestic saving and reducing government deficits over the long-run. In addition to these policy actions, steps to assure exchange rate flexibility play a critical role in allowing needed economic adjustments to occur.

**Conclusion**

The next year is going to be an extraordinary one as policymakers around the world continue to act to stabilize the global financial system and economy while implementing the necessary reforms to address the root causes of this crisis. Many of these important steps will be achieved through the G-20 Leaders process, but we must also take care to include and work collaboratively with countries not represented in this forum. It is clear that the G-20 Leaders take their charge of comprehensive change seriously, and they are committed to significant reforms in the months leading up to the next Summit hosted by the United Kingdom in April. At the center of any effective multilateral policy action will be the United States and Asia. We must look for ways to enhance our cooperation and leverage our regional, multilateral, and bilateral dialogues and relationships to ensure the integrity and efficacy of these efforts. The road ahead will not be an easy one, but the US-Asia economic partnership will be at the heart of our recovery. And our economic relationship will no doubt emerge even stronger as a consequence of weathering this storm together.

## Treasury Designates Bank Melli Front Company in New York City

12/17/2008

HP-1330

**Washington, DC--**The U.S. Department of the Treasury today designated ASSA CORP., a front company created and controlled by Iran's Bank Melli and domiciled in New York, and its parent organization, ASSA CO. LTD, located in the Channel Islands.

"This scheme to use a front company set up by Bank Melli -- a known proliferator -- to funnel money from the United States to Iran is yet another example of Iran's duplicity," said Under Secretary for Terrorism and Financial Intelligence Stuart Levey. "The dangerous mix of proliferation and deception has led the United States, the European Union and Australia to designate Bank Melli, and the United Nations to issue a call for vigilance with respect to all Iranian banks."

These entities were designated under Executive Order 13382 for being controlled by , and for acting for or on behalf of, Iran's Bank Melli, and for having provided financial support for, or services in support of, Bank Melli. Bank Melli was previously designated under E.O. 13382 on October 25, 2007. E.O. 13382 is aimed at freezing the assets of proliferators of weapons of mass destruction (WMD) and their supporters.

Bank Melli provides financial services, including opening letters of credit and maintaining accounts, for Iranian front companies and entities engaged in proliferation activities. Further, Bank Melli has facilitated the purchase of sensitive materials utilized by Iran's nuclear and missile industries, and has handled transactions for other designated Iranian entities, including Bank Sepah, Defense Industries Organization, and the Shahid Hammat Industrial Group.

Bank Melli has been designated as a proliferator by the United States and the European Union for its role in Iran's nuclear and ballistic missile programs. United Nations Security Council Resolution 1803 calls on all member states to exercise vigilance with regard to activities between financial institutions in their countries and all Iranian banks, particularly Bank Melli.

Further, Bank Melli provides banking services to Iran's military vanguard, the Iranian Revolutionary Guards Corps (IRGC) and the Qods Force, which is a branch of the IRGC that has been designated under Executive Order 13224 for providing support to terrorist groups, including the Taliban, Hizballah, Hamas, Palestinian Islamic Jihad, and the Popular Front for the Liberation of Palestine – General Command.

Bank Melli created ASSA CORP. as a vehicle to hold Bank Melli's interest in a building located at 650 Fifth Avenue, New York, New York, whose construction had been financed, in part, by a Bank Melli loan. ASSA CORP. co-owns the building through a partnership formed with the Alavi Foundation of New York, called 650 Fifth Avenue Company.

ASSA CORP. has repeatedly transferred rental income generated from the 650 Fifth Avenue partnership back to Bank Melli through ASSA CO. LTD. ASSA CORP. also has regularly followed Bank Melli's instructions with regard to ASSA CORP.'s affairs and its management of the investment, and has regularly reported back to Bank Melli on its financial situation, including frequently responding to Bank Melli requests for audits and information regarding company expenses.

This designation does not interfere with the business and other activities of the tenants of 650 Fifth Avenue, and U.S. persons are not prohibited from dealing with business establishments or other tenants of the building.

The preparation and execution of this designation required careful coordination with various components of the U.S. Department of Justice, the Federal Bureau of Investigation, the Internal Revenue Service, the New York Police Department, and the New York County District Attorney's Office.

# Treasury Hires Legal Firm Under the Emergency Economic Stabilization Act

12/17/2008

*To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.*

HP-1331

**Washington**- The U.S. Treasury Department today announced that Thacher, Proffitt & Wood, LLP will assist the Department with its investments in the Federal Reserve's Term Asset Backed Securities Loan Facility authorized under the Emergency Economic Stabilization Act. Treasury awarded the contract for legal services on Wednesday, December 10.

The firm will help the Department with investments in any entities for the purpose of purchasing asset-backed securities from a lending facility, such as the Federal Reserve facility announced on November 25. The procured services could include the negotiation and drafting of relevant documents, such as investment agreements, debt agreements, security agreements or other documentation necessary to implement such investments under the Troubled Asset Relief Program.

The agreement with the firm is effective until June 9, 2009. Treasury issued a request for proposals to seven firms on November 26. The Department received three proposals in response. The total cost for the firm's services is not expected to exceed approximately $500,000. More information on these contracts will be posted at https://www.fpds.gov/ (Federal Procurement Data System).

-30-

**REPORTS**

- Contract

**SOLICITATION/CONTRACT/ORDER FOR COMMERCIAL ITEM**
*OFFEROR TO COMPLETE BLOCKS 12, 17, 23, 24, & 30*

1. REQUISITION NUMBER

PAGE 1 OF 15

2. CONTRACT NO. TOS09014 B

3. AWARD/ EFFECTIVE DATE

4. ORDER NUMBER

5. SOLICITATION NUMBER

6. SOLICITATION ISSUE DATE

7. FOR SOLICITATION INFORMATION CALL: a. NAME KEVIN YOUEL-PAGE

b. TELEPHONE NUMBER (No collect calls)

8. OFFER DUE DATE/LOCAL TIME

9. ISSUED BY CODE TDP

DEPARTMENT OF THE TREASURY
PROCUREMENT SERVICES DIVISIONS
1500 PENNSYLVANIA AVENUE, NW
MAIL STOP: 1425 NEW YORK AVE, NW
SUITE 2100
WASHINGTON DC 20220

10. THIS ACQUISITION IS ☒ UNRESTRICTED OR ☐ SET ASIDE: % FOR:
☐ SMALL BUSINESS ☐ EMERGING SMALL BUSINESS
☐ HUBZONE SMALL BUSINESS
☐ SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS ☐ 8(A)

NAICS: 541110

SIZE STANDARD: $6.50

11. DELIVERY FOR FOB DESTINATION UNLESS BLOCK IS MARKED ☐ SEE SCHEDULE

12. DISCOUNT TERMS

☐ 13a. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700)

13b. RATING

14. METHOD OF SOLICITATION ☐ RFQ ☐ IFB ☐ RFP

15. DELIVER TO CODE TDP

TDP
US DEPARTMENT OF THE TREASURY-DEPAR
FINANCIAL MANAGEMENT, ATT: MET SQUA
1500 PENNSYLVANIA AVE., NW
WASHINGTON DC 20220

16. ADMINISTERED BY CODE TDP

DEPARTMENT OF THE TREASURY
PROCUREMENT SERVICES DIVISION
1500 PENNSYLVANIA AVE, NW
MAIL STOP: 1425 NEW YORK AVE, NW
SUITE 2100
WASHINGTON DC 20220

17a. CONTRACTOR/ OFFEROR CODE 077714368 FACILITY CODE

THACHER PROFFITT & WOOD
TWO WORLD FINANCIAL CENTER
MARKETING DEPARTMENT
NEW YORK NY 10281-1008

TELEPHONE NO.

18a. PAYMENT WILL BE MADE BY CODE TDP PAYMENT

TDP PAYMENT
DEPARTMENT OF THE TREASURY
1500 PENNSYLVANIA AVE, NW
ATTN: OFM, 6TH FLOOR MET SQUARE
WASHINGTON DC 20220

☐ 17b. CHECK IF REMITTANCE IS DIFFERENT AND PUT SUCH ADDRESS IN OFFER

18b. SUBMIT INVOICES TO ADDRESS SHOWN IN BLOCK 18a UNLESS BLOCK BELOW IS CHECKED ☐ SEE ADDENDUM

| 19. ITEM NO. | 20. SCHEDULE OF SUPPLIES/SERVICES | 21. QUANTITY | 22. UNIT | 23. UNIT PRICE | 24. AMOUNT |
|---|---|---|---|---|---|
| | Accounting Info:<br>TDP0128SE09XX-2009-610001-TDP1231100-2524-00000000<br>-XXX-XX-XXXXXXXXX-XXXXXXXXX-XXXXXXXXX<br>Period of Performance: 12/10/2008 to 06/09/2009 | | | | |
| 0001 | Associate<br>Obligated Amount: $0.00 | | HR | | |
| 0002 | Partner<br>Continued ... | | HR | | |

*(Use Reverse and/or Attach Additional Sheets as Necessary)*

25. ACCOUNTING AND APPROPRIATION DATA
See schedule

26. TOTAL AWARD AMOUNT *(For Govt. Use Only)*
$0.00

☐ 27a. SOLICITATION INCORPORATES BY REFERENCE FAR 52.212-1, 52.212-4. FAR 52.212-3 AND 52.212-5 ARE ATTACHED. ADDENDA ☐ ARE ☐ ARE NOT ATTACHED.

☐ 27b. CONTRACT/PURCHASE ORDER INCORPORATES BY REFERENCE FAR 52.212-4. FAR 52.212-5 IS ATTACHED. ADDENDA ☐ ARE ☐ ARE NOT ATTACHED.

☐ 28. CONTRACTOR IS REQUIRED TO SIGN THIS DOCUMENT AND RETURN ______ COPIES TO ISSUING OFFICE. CONTRACTOR AGREES TO FURNISH AND DELIVER ALL ITEMS SET FORTH OR OTHERWISE IDENTIFIED ABOVE AND ON ANY ADDITIONAL SHEETS SUBJECT TO THE TERMS AND CONDITIONS SPECIFIED HEREIN.

☒ 29. AWARD OF CONTRACT REF. ______ OFFER DATED ______. YOUR OFFER ON SOLICITATION (BLOCK 5), INCLUDING ANY ADDITIONS OR CHANGES WHICH ARE SET FORTH HEREIN, IS ACCEPTED AS TO ITEMS:

30a. SIGNATURE OF OFFEROR/CONTRACTOR

31a. UNITED STATES OF AMERICA (SIGNATURE OF CONTRACTING OFFICER)

30b. NAME AND TITLE OF SIGNER (Type or print)
Jeffrey Murphy, Partner

30c. DATE SIGNED
12/10/08

31b. NAME OF CONTRACTING OFFICER (Type or print)
KEVIN YOUEL-PAGE

31c. DATE SIGNED
12/10/2008

| 19. ITEM NO. | 20. SCHEDULE OF SUPPLIES/SERVICES | 21. QUANTITY | 22. UNIT | 23. UNIT PRICE | 24. AMOUNT |
|---|---|---|---|---|---|
| | Obligated Amount: $0.00<br><br>The total amount of award: $0.00. The obligation for this award is shown in box 26. | | | | |

32a. QUANTITY IN COLUMN 21 HAS BEEN

☐ RECEIVED ☐ INSPECTED ☐ ACCEPTED, AND CONFORMS TO THE CONTRACT, EXCEPT AS NOTED:

| 32b. SIGNATURE OF AUTHORIZED GOVERNMENT REPRESENTATIVE | 32c. DATE | 32d. PRINTED NAME AND TITLE OF AUTHORIZED GOVERNMENT REPRESENTATIVE |
|---|---|---|

32e. MAILING ADDRESS OF AUTHORIZED GOVERNMENT REPRESENTATIVE

32f. TELEPHONE NUMBER OF AUTHORIZED GOVERNMENT REPRESENTATIVE

32g. E-MAIL OF AUTHORIZED GOVERNMENT REPRESENTATIVE

| 33. SHIP NUMBER<br>☐ PARTIAL ☐ FINAL | 34. VOUCHER NUMBER | 35. AMOUNT VERIFIED CORRECT FOR | 36. PAYMENT<br>☐ COMPLETE ☐ PARTIAL ☐ FINAL | 37. CHECK NUMBER |
|---|---|---|---|---|
| 38. S/R ACCOUNT NUMBER | 39. S/R VOUCHER NUMBER | 40. PAID BY | | |

41a. I CERTIFY THIS ACCOUNT IS CORRECT AND PROPER FOR PAYMENT

| 41b. SIGNATURE AND TITLE OF CERTIFYING OFFICER | 41c. DATE |
|---|---|

42a. RECEIVED BY *(Print)*

42b. RECEIVED AT *(Location)*

| 42c. DATE REC'D *(YY/MM/DD)* | 42d. TOTAL CONTAINERS |
|---|---|

## SECTION I - STATEMENT OR WORK

The Contractor shall provide legal services, expertise, and guidance for one or more possible Treasury investments in one or more entities that will be created to purchase asset-backed securities from a lending facility. The services will be provided under this indefinite-delivery indefinite-quantity contract and may include, but would not be limited to, the negotiation and drafting of relevant documents, such as investment agreements, debt agreements, security agreements or other documentation necessary to implement such investments under the Troubled Asset Relief Program (TARP).

The Contractor shall provide legal services including but not limited to, securitization expertise to provide guidance as to the form, structure, and terms and conditions of the relevant documentation. All such documentation must comply with all applicable laws and regulations. All deliverables submitted by the contractor shall fully comply with all of the terms, conditions, and requirements of: the Emergency Economic Stabilization Act of 2008 (Act); any applicable regulations; Treasury policy; and best practices.

While the period of performance is up to six (6) months, Treasury anticipates that most of the work under the contract will be performed within ninety (90) days from the date of contract award. Performance will begin immediately upon award and work will not be required under the contract after six (6) months, but may end sooner depending on market conditions.

The Government estimates that completion of the work may require a total of approximately thirteen hundred (1300) attorney hours. Treasury notes, however, that the number of hours that will actually be required will be dependent on fluctuating market conditions.

SECTION II – PRICING

1.0 Labor Pricing

The fully burdened hourly rates with the associated labor categories are as follows.

| Labor Category | Fully Burdened Hourly Rate |
|---|---|
| Associate | |
| Partner | |

2.0 Contract Minimum and Maximum

This is an indefinite-delivery-indefinite-quantity contract with a guaranteed minimum of 100 labor hours. The contract maximum is 1300 labor hours.

## Section III – CONTRACT TERMS AND CONDTIONS

### 1.0 Clauses Incorporated by Reference:

The following Federal Acquisition Regulation (FAR) clauses are applicable to the acquisition. Full text clauses and provisions are available at http://farsite.hill.af.mil:

| | | |
|---|---|---|
| 52.212-4 | Contract Terms And Conditions-Commercial Items | (Feb 2007) |
| 52.212-5 | Contract Terms And Conditions Required To Implement Statutes Or Executive Orders--Commercial Items | (Dec 2007) |

(a) The Contractor shall comply with the following Federal Acquisition Regulation (FAR) clauses, which are incorporated in this contract by reference, to implement provisions of law or Executive orders applicable to acquisitions of commercial items:

(1) 52.233-3, Protest After Award (AUG 1996) (31 U.S.C. 3553).
(2) 52.233-4, Applicable Law for Breach of Contract Claim (OCT 2004) (Pub. L. 108-77, 108-78).
(b) The Contractor shall comply with the FAR clauses in this paragraph (b) that the contracting officer has indicated as being incorporated in this contract by reference to implement provisions of law or Executive orders applicable to acquisitions of commercial items:
_X_ (1) 52.203-6, Restrictions on Subcontractor Sales to the Government (Sept 2006), with Alternate I (Oct 1995)(41 U.S.C. 253g and 10 U.S.C. 2402).
_X_ (7) 52.219-8, Utilization of Small Business Concerns (May 2004) (15 U.S.C. 637(d)(2) and (3)).
_X_ (8) (i) 52.219-9, Small Business Subcontracting Plan (Sept 2007)(15 U.S.C. 637 (d)(4)).
_X_ (iii) Alternate II (Oct 2001) of 52.219-9.
_X_ (9) 52.219-14, Limitations on Subcontracting (Dec 1996)(15 U.S.C. 637(a)(14)).
_X_ (11) )(i) 52.219-23, Notice of Price Evaluation Adjustment for Small Disadvantaged Business Concerns (Sept 2005) (10 U.S.C. 2323) (if the offeror elects to waive the adjustment, it shall so indicate in its offer).
_X_(16) 52.2222-3, Convict Labor (June 2003) (E.O. 11755)
_X_(18) 52.222-21, Prohibition of Segregated Facilities (Feb 1999).
_X_(19) 52.222-26, Equal Opportunity (Mar 2007)(E.O. 11246).
_X_(20) 52.222-35, Equal Opportunity for Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans (Sept 2006)(38 U.S.C. 4212).
_X_(21) 52.222-36, Affirmative Action for Workers with Disabilities (Jun 1998)(29 U.S.C. 793).
_X_(22) 52.222-37, Employment Reports on Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans (Sept 2006)(38 U.S.C. 4212).
_X_(36) 52.232-33, Payment by Electronic Funds Transfer_Central Contractor Registration (Oct 2003) (31 U.S.C. 3332).

_X_(39) 52.239-1, Privacy or Security Safeguards (Aug 1996) (5 U.S.C. 552a).

| | | |
|---|---|---|
| 52.217-8 | Option to Extend Services | (Nov 1999) |
| 52.217-9 | Option To Extend The Term Of The Contract | (Mar 2000) |

## 2.0 CONTRACT TERM

The term of this contract is for 180 days after contract award.

## 3.0 CONTRACTING OFFICER

The Contracting Officer (CO) designated for administration of this contract(s) is Kevin Youel Page. The CO, in accordance with Subpart 1.6 of the Federal Acquisition Regulation, is the only person authorized to make or approve any changes in any of the requirements of this contract, and notwithstanding any clauses contained elsewhere in this contract, the said authority remains solely with the CO. In the event the Contractor makes any changes at the direction of any person other than the CO, the change will be considered to have been made without authority and no adjustment will be made in the contract price to cover any increase in cost incurred as a result thereof.

## 4.0 CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE (COTR) APPOINTMENT AND AUTHORITY (APR 2004) (DTAR 1052.201-70)

(a) The contracting officer's technical representative is:

Duane Morse
Telephone 202-622-1192

(b) Performance of work under this contract shall be subject to the technical direction of the COTR identified above, or a representative designated in writing. The term "technical direction" includes, without limitation, direction to the contractor that directs or redirects the labor effort, shifts the work between work areas or locations, fills in details and otherwise serves to ensure that tasks outlined in the work statement are accomplished satisfactorily.
(c) Technical direction must be within the scope of the specification(s)/work statement. The COTR does not have authority to issue technical direction that:
(1) constitutes a change of assignment or additional work outside the specification(s)/work statement;
(2) constitutes a change as defined in the clause entitled "Changes";
(3) in any manner causes an increase or decrease in the contract price, or the time required for contract performance;
(4) changes any of the terms, conditions, or specification(s)/work statement of the contract;
(5) interferes with the contractor's right to perform under the terms and conditions of the contract;
(6) directs, supervises or otherwise controls the actions of the contractor's employees.
(d) Technical direction may be oral or in writing. The COTR shall confirm oral direction in writing within five work days, with a copy to the contracting officer.
(e) The contractor shall proceed promptly with performance resulting from the technical

direction issued by the COTR. If, in the opinion of the contractor, any direction of the COTR, or his/her designee, falls within the limitations in (c), above, the contractor shall immediately notify the contracting officer no later than the beginning of the next Government work day.
(f) Failure of the contractor and the contracting officer to agree that technical direction is within the scope of the contract shall be subject to the terms of the clause entitled "Disputes."

**5.0 52.216-18 ORDERING (OCT 1995)**

(a) Any supplies and services to be furnished under this contract shall be ordered by issuance of delivery orders or task orders by the individuals or activities designated in the Schedule. Such orders may be issued anytime during the 180 days following the date of award.
(b) All delivery orders or task orders are subject to the terms and conditions of this contract. In the event of conflict between a delivery order or task order and this contract, the contract shall control.
(c) If mailed, a delivery order or task order is considered "issued" when the Government deposits the order in the mail. Orders may be issued orally, by facsimile, or by electronic commerce methods only if authorized in the Schedule.

**6.0 Task Orders**

Task orders issued under this contract may be issued on a firm fixed price or labor hour basis.

**7.0 52.216-19 ORDER LIMITATIONS (OCT 1995)**

(a) Minimum order. When the Government requires supplies or services covered by this contract in an amount of less than five (5) labor hours, the Government is not obligated to purchase, nor is the Contractor obligated to furnish, those supplies or services under the contract.
(b) Maximum order. The Contractor is not obligated to honor-- (1) Any order for a single item in excess of 500 labor hours; (2) Any order for a combination of items in excess of 1300 labor hours; or (3) A series of orders from the same ordering office within 30 days that together call for quantities exceeding the limitation in subparagraph (1) or (2) of this section.
(c) If this is a requirements contract (i.e., includes the Requirements clause at subsection 52.216-21 of the Federal Acquisition Regulation (FAR)), the Government is not required to order a part of any one requirement from the Contractor if that requirement exceeds the maximum- order limitations in paragraph (b) of this section. (d) Notwithstanding paragraphs (b) and (c) of this section, the Contractor shall honor any order exceeding the maximum order limitations in paragraph (b), unless that order (or orders) is returned to the ordering office within 30 days after issuance, with written notice stating the Contractor's intent not to ship the item (or items) called for and the reasons. Upon receiving this notice, the Government may acquire the supplies or services from another source.

## 8.0 52.216-22 INDEFINITE QUANTITY (OCT 1995)

(a) This is an indefinite-quantity contract for the supplies or services specified and effective for the period stated, in the Schedule. The quantities of supplies and services specified in the Schedule are estimates only and are not purchased by this contract.
(b) Delivery or performance shall be made only as authorized by orders issued in accordance with the Ordering clause. The Contractor shall furnish to the Government, when and if ordered, the supplies or services specified in the Schedule up to and including the quantity designated in the Schedule as the "maximum." The Government shall order at least the quantity of supplies or services designated in the Schedule as the "minimum."
(c) Except for any limitations on quantities in the Order Limitations clause or in the Schedule, there is no limit on the number of orders that may be issued. The Government may issue orders requiring delivery to multiple destinations or performance at multiple locations.
(d) Any order issued during the effective period of this contract and not completed within that period shall be completed by the Contractor within the time specified in the order. The contract shall govern the Contractor's and Government's rights and obligations with respect to that order to the same extent as if the order were completed during the contract's effective period; provided, that the Contractor shall not be required to make any deliveries under this contract after the period of performance has ended.

## 9.0 52.232-7 Payments under Time-and-Materials and Labor-Hour Contracts (Feb 2007)

The Government will pay the Contractor as follows upon the submission of vouchers approved by the Contracting Officer or the authorized representative:

(a) Hourly rate.

(1) Hourly rate means the rate(s) prescribed in the contract for payment for labor that meets the labor category qualifications of a labor category specified in the contract that are—

(i) Performed by the Contractor;

(ii) Performed by the subcontractors; or

(iii) Transferred between divisions, subsidiaries, or affiliates of the Contractor under a common control.

(2) The amounts shall be computed by multiplying the appropriate hourly rates prescribed in the Schedule by the number of direct labor hours performed.

(3) The hourly rates shall be paid for all labor performed on the contract that meets the labor qualifications specified in the contract. Labor hours incurred to perform tasks for which labor qualifications were specified in the contract will not be paid to the extent the work is performed by employees that do not meet the qualifications specified in the contract, unless specifically authorized by the Contracting Officer.

(4) The hourly rates shall include wages, indirect costs, general and administrative expense, and profit. Fractional parts of an hour shall be payable on a prorated basis.

(5) Vouchers may be submitted once each month (or at more frequent intervals, if approved by the Contracting Officer), to the Contracting Officer or authorized representative. The Contractor shall substantiate vouchers (including any subcontractor hours reimbursed at the hourly rate in the schedule) by evidence of actual payment and by—

(i) Individual daily job timekeeping records;

(ii) Records that verify the employees meet the qualifications for the labor categories specified in the contract; or

(iii) Other substantiation approved by the Contracting Officer.

(6) Promptly after receipt of each substantiated voucher, the Government shall, except as otherwise provided in this contract, and subject to the terms of paragraph (e) of this clause, pay the voucher as approved by the Contracting Officer or authorized representative.

(7) Unless otherwise prescribed in the Schedule, the Contracting Officer may unilaterally issue a contract modification requiring the Contractor to withhold amounts from its billings until a reserve is set aside in an amount that the Contracting Officer considers necessary to protect the Government's interests. The Contracting Officer may require a withhold of 5 percent of the amounts due under paragraph (a) of this clause, but the total amount withheld for the contract shall not exceed The amounts withheld shall be retained until the Contractor executes and delivers the release required by paragraph (g) of this clause.

(8) Unless the Schedule prescribes otherwise, the hourly rates in the Schedule shall not be varied by virtue of the Contractor having performed work on an overtime basis. If no overtime rates are provided in the Schedule and overtime work is approved in advance by the Contracting Officer, overtime rates shall be negotiated. Failure to agree upon these overtime rates shall be treated as a dispute under the Disputes clause of this contract. If the Schedule provides rates for overtime, the premium portion of those rates will be reimbursable only to the extent the overtime is approved by the Contracting Officer.

(b) Materials.

(1) or the purposes of this clause—

(i) Direct materials means those materials that enter directly into the end product, or that are used or consumed directly in connection with the furnishing of the end product or service.

(ii) Materials means—

(A) Direct materials, including supplies transferred between divisions, subsidiaries, or affiliates of the Contractor under a common control;

(B) Subcontracts for supplies and incidental services for which there is not a labor category specified in the contract;

(C) Other direct costs (e.g., incidental services for which there is not a labor category specified in the contract, travel, computer usage charges, etc.); and

(D) Applicable indirect costs.

(2) If the Contractor furnishes its own materials that meet the definition of a commercial item at 2.101, the price to be paid for such materials shall not exceed the Contractor's established catalog or market price, adjusted to reflect the—

(i) Quantities being acquired; and

(ii) Actual cost of any modifications necessary because of contract requirements.

(3) Except as provided for in paragraph (b)(2) of this clause, the Government will reimburse the Contractor for allowable cost of materials provided the Contractor—

(i) Has made payments for materials in accordance with the terms and conditions of the agreement or invoice; or

(ii) Ordinarily makes these payments within 30 days of the submission of the Contractor's payment request to the Government and such payment is in accordance with the terms and conditions of the agreement or invoice.

(4) Payment for materials is subject to the Allowable Cost and Payment clause of this contract. The Contracting Officer will determine allowable costs of materials in accordance with Subpart 31.2 of the Federal Acquisition Regulation (FAR) in effect on the date of this contract.

(5) The Contractor may include allocable indirect costs and other direct costs to the extent they are—

(i) Comprised only of costs that are clearly excluded from the hourly rate;

(ii) Allocated in accordance with the Contractor's written or established accounting practices; and

(iii) Indirect costs are not applied to subcontracts that are paid at the hourly rates.

(6) To the extent able, the Contractor shall—

(i) Obtain materials at the most advantageous prices available with due regard to securing prompt delivery of satisfactory materials; and

(ii) Take all cash and trade discounts, rebates, allowances, credits, salvage, commissions, and other benefits. When unable to take advantage of the benefits, the Contractor shall promptly notify the Contracting Officer and give the reasons. The Contractor shall give credit to the Government for cash and trade discounts, rebates, scrap, commissions, and other amounts that have accrued to the benefit of the Contractor, or would have accrued except for the fault or neglect of the Contractor. The Contractor shall not deduct from gross costs the benefits lost without fault or neglect on the part of the Contractor, or lost through fault of the Government.

(7) Except as provided for in 31.205-26(e) and (f), the Government will not pay profit or fee to the prime Contractor on materials.

(c) If the Contractor enters into any subcontract that requires consent under the clause at 52.244-2, Subcontracts, without obtaining such consent, the Government is not required to reimburse the Contractor for any costs incurred under the subcontract prior to the date the Contractor obtains the required consent. Any reimbursement of subcontract costs incurred prior to the date the consent was obtained shall be at the sole discretion of the Government.

(d) Total cost. It is estimated that the total cost to the Government for the performance of this contract shall not exceed the ceiling price set forth in the Schedule, and the Contractor agrees to use its best efforts to perform the work specified in the Schedule and all obligations under this contract within such ceiling price. If at any time the Contractor has reason to believe that the hourly rate payments and material costs that will accrue in performing this contract in the next succeeding 30 days, if added to all other payments and costs previously accrued, will exceed 85 percent of the ceiling price in the Schedule, the Contractor shall notify the Contracting Officer giving a revised estimate of the total price to the Government for performing this contract with supporting reasons and documentation. If at any time during performing this contract, the Contractor has reason to believe that the total price to the Government for performing this contract will be substantially greater or less than the then stated ceiling price, the Contractor shall so notify the Contracting Officer, giving a revised estimate of the total price for performing this contract, with supporting reasons and documentation. If at any time during performing this contract, the Government has reason to believe that the work to be required in performing this contract will be substantially greater or less than the stated ceiling price, the Contracting Officer will so advise the Contractor, giving the then revised estimate of the total amount of effort to be required under the contract.

(e) Ceiling price. The Government will not be obligated to pay the Contractor any amount in excess of the ceiling price in the Schedule, and the Contractor shall not be obligated to continue performance if to do so would exceed the ceiling price set forth in the Schedule, unless and until the Contracting Officer notifies the Contractor in writing that the ceiling price has been increased and specifies in the notice a revised ceiling that shall constitute the ceiling price for performance under this contract. When and to the extent that the ceiling price set forth in the Schedule has been increased, any hours expended and material costs incurred by the Contractor in excess of the ceiling price before the increase shall be allowable to the same extent as if the hours expended and material costs had been incurred after the increase in the ceiling price.

(f) Audit. At any time before final payment under this contract, the Contracting Officer may request audit of the vouchers and supporting documentation. Each payment previously made shall be subject to reduction to the extent of amounts, on preceding vouchers, that are found by the Contracting Officer or authorized representative not to have been properly payable and shall also be subject to reduction for overpayments or to increase for underpayments. Upon receipt and approval of the voucher designated by the Contractor as the "completion voucher" and supporting documentation, and upon compliance by the Contractor with all terms of this contract (including, without limitation, terms relating to patents and the terms of paragraph (g) of this clause), the Government shall promptly pay any balance due the Contractor. The completion voucher, and supporting documentation, shall be submitted by the Contractor as promptly as practicable following completion of the work under this contract, but in no event later than 1 year (or such longer period as the Contracting Officer may approve in writing) from the date of completion.

(g) Assignment and Release of Claims. The Contractor, and each assignee under an assignment entered into under this contract and in effect at the time of final payment under this contract, shall execute and deliver, at the time of and as a condition precedent to final payment under this contract, a release discharging the Government, its officers, agents, and employees of and from all liabilities, obligations, and claims arising out of or under this contract, subject only to the following exceptions:

(1) Specified claims in stated amounts, or in estimated amounts if the amounts are not susceptible of exact statement by the Contractor.

(2) Claims, together with reasonable incidental expenses, based upon the liabilities of the Contractor to third parties arising out of performing this contract, that are not known to the Contractor on the date of the execution of the release, and of which the Contractor gives notice in writing to the Contracting Officer not more than 6 years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier.

(3) Claims for reimbursement of costs (other than expenses of the Contractor by reason of its indemnification of the Government against patent liability), including reasonable incidental expenses, incurred by the Contractor under the terms of this contract relating to patents.

(h) Interim payments on contracts for other than services.

(1) Interim payments made prior to the final payment under the contract are contract financing payments. Contract financing payments are not subject to the interest penalty provisions of the Prompt Payment Act.

(2) The designated payment office will make interim payments for contract financing on the 30$^{th}$ day after the designated billing office receives a proper payment request. In the event that the Government requires an audit or other review of a specific payment request to ensure compliance with the terms and conditions of the contract, the designated payment office is not compelled to make payment by the specified due date.

(i) Interim payments on contracts for services. For interim payments made prior to the final payment under this contract, the Government will make payment in accordance with the Prompt Payment Act (31 U.S.C. 3903) and prompt payment regulations at 5 CFR part 1315.

**10.0 CONFIDENTIALITY**

The Contractor recognizes that, in performing this contract, the Contractor may obtain access to non-public information that is confidential or proprietary in nature. Except as permitted by the contract, the Contractor agrees that it, its employees, its subcontractors, and its subcontract employees will not disclose to any third party, or otherwise use, any information it obtains or prepares in the course of performance of this agreement for any purpose other than to perform work under the contract without first receiving written permission from the Contracting Officer. The Contractor shall secure information received from or prepared or gathered for the Treasury Department under this contract in a secure location with access limited to only those personnel with a "need to know."

## 11.0 KEY PERSONNEL

During the contract performance period, any substitution or replacement of key personnel must be authorized by the Contracting Officer.

## 12.0 COOPERATION WITH OTHER ORGANIZATIONS

The Contractor agrees to cooperate with representatives of other contractors, Federal Reserve Banks, Federal agencies, governmental entities, and other organizations when the Treasury determines it to be in the best interest of the Government.

## 13.0 LABOR RATES

Labor rates under this contract are fully burdened fixed price labor rates set forth in Section II, Pricing. Labor rates may not exceed those set forth in the Pricing Schedule.

## 14.0 CONFLICTS OF INTEREST

(a) Treasury HAS NOT WAIVED any potential conflicts of interest as defined by Rules 1.7—1.11 of the ABA's Model Rules of Professional Conduct. Further, Contractor agrees that its future attorney-client relationship with Treasury may be governed by conflict of interest rules more restrictive than the ABA's Model Rules that may be issued by the Secretary of the Treasury pursuant to Section 108(b) of the Emergency Economic Stabilization Act of 2008 (EESA).

(b) The Contractor shall disclose any actual or potential organizational conflicts of interest before beginning work under the contract. Failure to make full and timely disclosure of actual or potential conflicts of interest, or matters that may present the appearance of a conflict, as well as failure to comply with Treasury conflicts of interest policies and procedures are extremely serious matters. Such failures may subject the Contractor to corrective action including but not limited to: (1) refusal to waive a conflict; (2) termination of this contract for default; (3) debarment of the contractor from federal contracting; (4) referral to the appropriate state licensing authorities; and, in appropriate cases, and (5) civil or criminal actions.

(c) It is solely within the discretion of the Treasury Department to determine whether or not a conflict of interest exists. Even the appearance of a conflict may result in the denial of a waiver or other appropriate actions. In the event that matters are transferred to another law firm pursuant to the corrective actions listed above, Contractor is expected to follow Treasury Department policies and procedures and to cooperate fully in the orderly transfer of such matters.

(d) In addition to any other applicable restrictions, the Contractor shall agree: (1) not to represent any party other than the Treasury in any matter concerning the anticipated transaction(s); (2) to prepare training on conflicts in consultation with Treasury's EESA Compliance Office and require all attorneys assigned to work under this agreement to receive that training no later than 10 days after contract award; and (3) to have all attorneys assigned to work under this contract enter into agreements at the inception of the contract requiring the attorneys to disclose at the inception of the contract any and all personal, business, or financial interests of the individual, his or her spouse, minor children, or other family members with whom the individual has a close personal relationship that would cause a reasonable person with knowledge of the relevant facts to question the individual's ability to perform, his or her objectivity or judgment in such performance, or his or her ability to represent the interest of the Treasury .

(e) Within 5 days of contract award, the Contractor shall review the submissions required by section (d)(3) of this clause for personal conflicts of interest, and certify in writing to Treasury that no such conflicts exist. In making this determination, the Contractor may rely on the information obtained from the individuals, unless the Contractor has reason to believe that the information provided is false or inaccurate. The Contractor shall make these submissions available to Treasury for inspection upon request, and retain them for three years after the termination of this contract.

(f) The Contractor shall include this clause in all subcontracts, consultant agreements, and in lower tier subcontracts unless a waiver is requested from, and granted by, the Contracting Officer.

(g) The Treasury Department intends, pursuant to section 108 of the EESA, to issue additional regulations or guidelines concerning conflicts of interest. If such regulations or guidelines differ from or expand upon the conflict of interest provisions included in this Contract, the Contractor agrees to negotiate in good faith the inclusion of the different or additional provisions. If agreement between the parties cannot be reached, the Government may terminate this contract for convenience. Nothing in this paragraph, however, shall limit the Treasury Department's rights under the Changes clause of this Contract.

**15.0 FIDUCIARY DUTY**

The contractor agrees that it shall have a fiduciary duty to the Government in its performance under this contract.

**16.0 PUBLICITY REQUIREMENTS**

The contractor agrees to submit within 6 hours of contract or task order award a .pdf file of the fully executed contract or order with all proprietary information redacted for the purposes of having the redacted contract made public at the sole discretion of the Department of the Treasury. The contractor shall supply the point of contact to work directly with the Public Affairs Office of the Department of the Treasury.

**17.0 52.216-1 TYPE OF CONTRACT (APR 1984)**

This contract is a indefinite-delivery-indefinite-quantity contract with fully burdened fixed-priced rate prices that are stated in Section II of the contract. Task orders issued under this contract may be firm fixed price or labor hour.

**18.0 52.216-22 Indefinite Quantity (Oct 1995)**

(a) This is an indefinite-quantity contract for the supplies or services specified, and effective for the period stated, in the Schedule. The quantities of supplies and services specified in the Schedule are estimates only and are not purchased by this contract.

(b) Delivery or performance shall be made only as authorized by orders issued in accordance with the Ordering clause. The Contractor shall furnish to the Government, when and if ordered, the supplies or services specified in the Schedule up to and inclding the quantity designated in the Schedule as the "maximum." The Government shall order at least the quantity of supplies or services designated in the Schedule as the "minimum."

(c) Except for any limitations on quantities in the Order Limitations clause or in the Schedule, there is no limit on the number of orders that may be issued. The Government may issue orders requiring delivery to multiple destinations or performance at multiple locations.

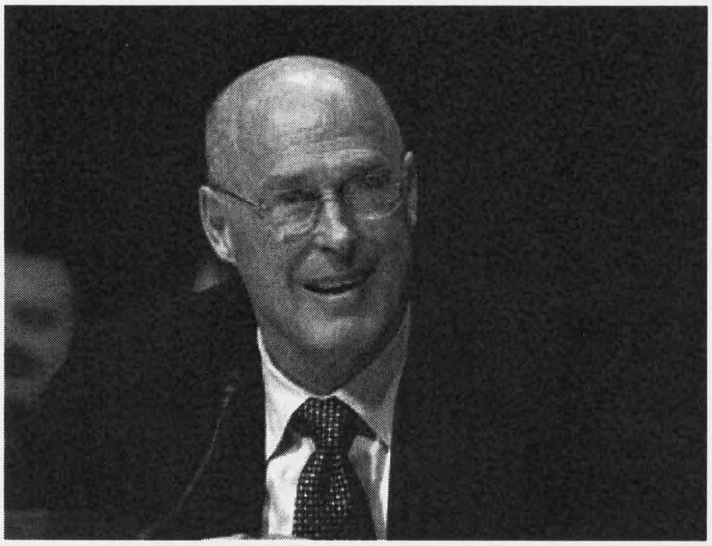
(d) Any order issued during the effective period of this contract and not completed within that period shall be completed by the Contractor within the time specified in the order. The contact shall govern the Contractor's and Government's rights and obligations with respect to that order to the same extent as if the order were completed during the contract's effective period; provided, that the Contractor shall not be required to make any deliveries under this contract after the period of performance has ended.

### 18.0 Contractor's Proposal Incorporation

Thacher Proffitt and Wood's proposal dated December 2, 2008 and its response to Treasury discussion items dated December 5, 2008 are incorporated by reference.

## Paulson Speaks on Economy and Markets in New York

12/18/2008



Secretary Henry M. Paulson, Jr. participated Thursday in a discussion at the 92nd Street Y in New York City on the economy and markets.

**LINKS**

- Event Details

## Secretary Paulson Statement on Stabilizing the Automotive Industry

12/19/2008

HP-1332

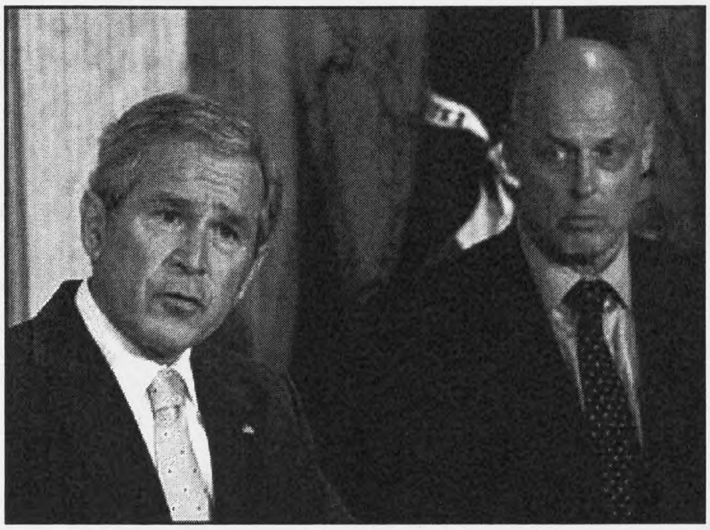
**Washington-** Today, we have acted to support General Motors and Chrysler, with the requirement that they move quickly to develop and adopt acceptable plans for long term viability. This step will prevent significant disruption to our economy, while putting the companies on a path to the significant restructuring necessary to achieve long-term viability. At the same time, we are including loan provisions to protect the taxpayers to the maximum extent possible.

Treasury will make these loans using authority provided for the Troubled Asset Relief Program. While the purpose of this program and the enabling legislation is to stabilize our financial sector, the authority allows us to take this action. Absent Congressional action, no other authorities existed to stave off a disorderly bankruptcy of one or more auto companies.

As a result of this decision, Treasury effectively has allocated the first $350 billion from the TARP. The actual disbursement of this amount is subject to approval of bank capital applications, many of which remain with the regulators and will not reach Treasury for review until early next year. Disbursement is also subject to finalizing the structure for the Federal Reserve-Treasury consumer credit program (TALF). In the very short-term, the allocated but not yet disbursed TARP balances, in conjunction with the powers of the Federal Reserve and the FDIC, give me confidence that we have the necessary resources to address a significant financial market event. It is clear, however, that Congress will need to release the remainder of the TARP to support financial market stability. I will discuss that process with the congressional leadership and the President-elect's transition team in the near future.

## President Bush Announces Plan to Aid Auto Makers

12/19/2008



President Bush announced a plan today to stabilize auto makers by drawing from the financial rescue package Congress approved earlier this year. Automotive companies receiving loans will have to establish plans for long-term viability by March 31 or be required to repay their loans in full. "In the midst of a financial crisis and a recession, allowing the U.S. auto industry to collapse is not a responsible course of action," the President said.

**LINKS**

- Treasury Term Sheets for Automotive Plan
- President Bush Statement on Stabilizing Auto Industry
- Secretary Paulson Statement on Stabilizing Auto Industry

## Treasury Releases Term Sheet for Automotive Plan

12/19/2008

*To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.*

HP-1333

**Washington**- The U.S. Treasury Department today released the term sheet and appendices for the Administration's plan for stabilizing the automotive industry.

**-30-**

**REPORTS**

- Chrysler Term Sheet and Appendix
- General Motors Term Sheet and Appendix

**Indicative Summary of Terms for**
**Secured Term Loan Facility**

**December 19, 2008**

*Based upon the preliminary information provided to the United States Department of the Treasury (the "UST") regarding the proposed Facility, the following Summary of Terms outlines (for discussion purposes only) the key terms and conditions of a potential transaction. This Summary of Terms is not intended to be a comprehensive list of all relevant terms and conditions of the transactions contemplated herein. Further, these terms are subject to completion of due diligence, legal and other internal review and receipt of related approvals satisfactory to UST and any other approval procedures customary for a transaction of this nature. Final terms will be included in definitive documentation based on this Summary of Terms and executed by the applicable parties. This Summary of Terms is intended for the sole benefit of the Company identified on Appendix A and certain of its affiliates and shall not be relied upon by any other person.*

**Facility:** A term loan that is full recourse to Borrower(s) (except as provided on Appendix A), secured by a first or junior lien, as applicable, on all of Borrower(s)' assets, and is subject to the terms and conditions contained herein and in the definitive Facility documentation.

**Borrower(s):** As set forth on Appendix A.

**Lender:** UST, on a committed basis.

**Guarantor(s):** As set forth on Appendix A. The Borrower(s) and the Guarantor(s) shall hereinafter each be referred to as a "**Loan Party,**" and collectively, as "**Loan Parties.**"

**Closing Date:** As set forth on Appendix A.

**Loan:** Lender will make available to Borrower(s) a loan in an aggregate amount up to the amount set forth on Appendix A (the "**Loan Amount**") in predetermined draw amounts, as further specified on Appendix A.

**Availability:** On the dates specified in Appendix A, Borrower(s) may request Lender to fund a draw up to an amount set forth on Appendix A for such date (each such funding, an "**Advance**"). At the time of each funding of an Advance by the Lender (each, an "**Advance Date**"), Borrower(s) shall be in compliance with all of the covenants, representations and warranties of this Facility.

Unless otherwise agreed by the UST, Borrower(s) must provide the UST with its request at least two (2) business days' prior to the date on which an Advance will be funded by Lender. For the avoidance of doubt, notice received by the UST after 5:00 pm Washington, DC time on any business day shall be deemed to be received on the following business day.

**Use of Funds:** The Borrower(s) shall utilize the proceeds from the Advances as set forth on Appendix A.

**Currencies:** All Advances, prepayments and payments of fees and indemnities and any other payments under the Facility shall be made in United States Dollars.

**Collateral:** As set forth on Appendix A. As security for Borrower(s)' performance of all of their obligations under the Facility and Guarantor(s)' performance of their obligations under the Guaranties, the applicable Loan Parties will grant to Lender a security interest in and to the Collateral (with the applicable lien priority specified with respect thereto on Appendix A).

**Maturity Date:** The Facility will terminate and the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender, will be due and fully payable on the earliest of (i) the Expiration Date (as set forth on Appendix A), (ii) the occurrence of a Termination Event, or (iii) the occurrence of an Event of Default, at the option of the Lender.

**Interest Rate:** Each Advance shall accrue interest at a rate per annum equal to (i) the sum of (x) the greater of (A) three-month LIBOR and (B) the LIBOR Floor, plus (y) the Spread Amount, multiplied by (ii) the outstanding principal balance of such Advance. The Interest Rate shall be determined on the Closing Date and reset on each Interest Payment Date and shall be calculated on a 360-day year basis for the actual number of days elapsed (including the first day but excluding the last day) occurring in the related Interest Period. Interest on the Advances shall be payable in arrears on each Interest Payment Date in respect of the previous Interest Period, and together with all outstanding principal and other amounts owing, on the Maturity Date.

**Interest Period:** For each Advance, (i) initially, the period commencing on the related Advance Date and ending on the calendar day prior to the next succeeding Interest Payment Date, and (ii) thereafter, each period commencing on an Interest Payment Date and ending on the calendar day prior to next succeeding Interest Payment Date. Notwithstanding the foregoing, no Interest Period may end after the Maturity Date.

**Interest Payment Date**: Set forth on Appendix A.

**LIBOR Floor:** Set forth on Appendix A.

**Spread Amount:** Set forth on Appendix A.

**Mandatory Prepayments:** Subject to any mandatory prepayments from the following amounts required under existing secured credit agreements, Borrower(s) shall apply 100% of the net cash proceeds of any of the following transactions to prepay, on a pro rata basis, the aggregate outstanding Advances: (i) sales, liquidations or other transfers of any Collateral other than sales in the ordinary course of business, (ii) the incurrence by any Borrower of any debt (other than permitted indebtedness including the refinancing of prior indebtedness) or any equity or other capital raises (other than contributions of indemnity payments received by the Company and required to be applied to satisfy obligations of its subsidiaries), either public or private, whether in connection with a primary securities offering, a business combination of any kind, or otherwise, (iii) to the extent unencumbered, non-ordinary course asset sales (including aircraft divestments); provided that,with respect to clause (ii), in no event will any of the Collateral or Lender's security interest therein be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

**Optional Prepayments:**

Upon written notice to the Lender at least two business days in advance, Borrower(s) may prepay all or a portion of the outstanding Advances, without penalty; provided that in no event will any of the Collateral be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

**Executive Privileges and Compensation:**

Until such time as the Facility is repaid in full and the UST ceases to own any equity securities of the Company acquired pursuant to this Facility (including any Warrants and underlying Equity Interests acquired by the UST upon exercise thereof) (the "**Relevant Period**"), the following restrictions on executive privileges and compensation shall apply to the "**Relevant Companies**," as defined on Annex A:

1. The Relevant Companies shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST's guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI;
2. The Relevant Companies and their respective SEOs (as defined below) shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI;
3. The Relevant Companies shall comply in all respects with the limits on annual executive compensation deductibles imposed by Section 162(m)(5) of Internal Revenue Code of 1986, as amended, as applicable;
4. None of the Relevant Companies shall pay or accrue any bonus or incentive compensation to the 25 most highly compensated employees (including the SEOs) (collectively, the "**Senior Employees**") except as approved by the President's Designee;
5. None of the Relevant Companies shall adopt or maintain any compensation plan that would encourage manipulation of their reported earnings to enhance the compensation of any of its employees; and
6. The Relevant Companies shall maintain all suspensions and other restrictions of contributions to Benefit Plans that are in place or initiated as of the Closing Date.

At any time during the Relevant Period, the Lender shall have the right to require any Relevant Company to claw back any bonuses or other compensation, including golden parachutes, paid to any Senior Employees in violation of any of the foregoing.

Within 120 days of the Closing Date, the principal executive officer (or person acting in a similar capacity) of each Relevant Company shall certify in writing, under penalty of perjury, to the Lender's Chief Compliance Officer that such Relevant Company's compensation committee has reviewed the compensation arrangements of the SEOs with its senior risk officers and determined that the compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of such Relevant Company. Each Relevant Company shall preserve appropriate documentation and records to substantiate such certification in an easily accessible place for a period not less than three (3) years following the Maturity Date.

"**President's Designee**" means one or more officers from the Executive Branch designated by the President. "**SEOs**" means the Loan Parties' "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30, or as otherwise may be defined by the UST. "**Benefit Plan**" means, collectively, any compensation, bonus, incentive and other benefit plans (including supplemental executive retirement plans), arrangements and agreements (including golden parachute, severance and employment agreements).

**Asset Divestment:** With respect to any private passenger aircraft or interest in such aircraft that is owned or held by any Loan Party or any subsidiary immediately prior to the Closing Date, such party shall demonstrate to the satisfaction of the President's Designee that it is taking all reasonable steps to divest itself of such aircraft or interest. Further, no Loan Party shall acquire or lease any such aircraft or interest in such aircraft.

**Material Transactions:** The Loan Parties shall provide prompt notice to the President's Designee of any asset sale, investment, contract, commitment, or other transaction not in the ordinary course of business proposed to be entered into with a value in excess of $100 million (a "**Material Transaction**"). The President's Designee shall have the right to review and prohibit any such Material Transaction if the President's Designee determines that it would be inconsistent with or detrimental to the long-term viability of such Loan Party.

**Restrictions on Expenses:** During the Relevant Period, the Company shall maintain and implement its comprehensive written policy on corporate expenses ("**Expense Policy**") and distribute the Expense Policy to all employees of the Company and its subsidiaries covered under the policy. Any material amendments to the Expense Policy shall require the prior written consent of the President's Designee, and any material deviations from the Expense Policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the the President's Designee.

The Expense Policy shall, at a minimum: (i) require compliance with all applicable law, (ii) apply to the Company and all of its subsidiaries, (iii) govern (a) the hosting, sponsorship or other payment for conferences and events, (b) travel accommodations and expenditures, (c) consulting arrangements with outside service providers, (d) any new lease or acquisition of real estate, (e) expenses relating to office or facility renovations or relocations, and (f) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight, and (b) mechanisms for addressing non-compliance with the policy.

**Restructuring Plan:** By no later than February 17, 2009, the Company shall submit to the President's Designee a plan to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries (the "**Restructuring Plan**"), which Restructuring Plan shall include specific actions intended to result in the following:

1. Repayment of the Loan Amount and any other financing extended by the Government under all applicable terms and conditions;
2. Ability of the Company and its subsidiaries to (x) comply with applicable Federal fuel efficiency and emissions requirements, and (y) commence domestic manufacturing of advanced technology vehicles, as described in section 136 of the Energy Independence and Security Act of 2007 (Public Law 110-140; 42 U.S.C. 17013);
3. Achievement by the Company and its subsidiaries of a positive net present value, using reasonable assumptions and taking into account all existing and projected future costs, including repayment of the Loan Amount and any other financing extended by the Government;
4. Rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the Company and its subsidiaries; and
5. A product mix and cost structure that is competitive in the United States marketplace.

The Restructuring Plan shall extend through 2010 monthly and annually through 2014 and shall include detailed historical and projected financial statements with supporting schedules and additional information as may be requested by the President's Designee.

**Restructuring Targets:** In addition to the Restructuring Plan, the Company and its subsidiaries shall use their best efforts to achieve the following targets:

1. Reduction of their outstanding unsecured public indebtedness (other than with respect to pension and employee benefits obligations) by not less than two-thirds through conversion of existing public debt into equity or debt (a "**Bond Exchange**") and other appropriate means;
2. Reduction of the total amount of compensation, including wages and benefits, paid to their U.S. employees so that, by no later than December 31, 2009, the average of such total amount, per hour and per person, is an amount that is competitive with the average total amount of such compensation, as certified by the Secretary of Labor, paid per hour and per person to employees of with Nissan Motor Company, Toyota Motor

Corporation, or American Honda Motor Company whose site of employment is in the United States (the "**Compensation Reductions**");

3. Elimination of the payment of any compensation or benefits to U.S. employees of the Company or any subsidiary who have been fired, laid-off, furloughed, or idled, other than customary severance pay (the "**Severance Rationalization**").
4. Application of the work rules to their U.S. employees, beginning not later than December 31, 2009, in a manner that is competitive with Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company whose site of employment is in the United States (the "**Work Rule Modifications**" and, together with the Compensation Reductions and Severance Rationalization, the "**Labor Modifications**"); and
5. Provision that not less than one-half of the value of each future payment or contribution made by them to the account of the voluntary employees beneficiary association (or similar account) ("**VEBA**") of a labor organization representing the employees of the Company and its subsidiaries shall be made in the form of the stock of the Company or one of its subsidiaries (the "**VEBA Modifications**"), and the total value of any such payment or contribution shall not exceed the amount of any such payment or contribution that was required for such time period under the collective bargaining agreement that applied as of the day before the Closing Date.

**Term Sheet Requirements:**

By no later than February 17, 2009, the Company shall submit to the President's Designee:

1. A term sheet signed on behalf of the Company and the leadership of each major U.S. labor organization that represents the employees of the Company and its subsidiaries (collectively, the "**Unions**") providing for the Labor Modifications; and
2. A term sheet signed on behalf of the Company and representatives of the VEBA providing for the VEBA Modifications; and
3. A term sheet signed on behalf of the Company and representatives of holders of the Company's public debt providing for the Bond Exchange.

**Restructuring Plan Report:**

On or before March 31, 2009, the Company shall submit to the President's Designee a written certification and report detailing the progress made by the Company and its subsidiaries in implementing the Restructuring Plan. The report shall identify any deviations from the Restructuring Targets and explain the rationale for these deviations, including an explanation of why such deviations do not jeopardize the Borrower's long-term viability. The report shall also include evidence satisfactory to the President's Designee that the following events have occurred:

1. Approval of the Labor Modifications by the members of the Unions;
2. Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals, provided that the Company must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and
3. The commencement of an exchange offer to implement the Bond Exchange.

**President's Designee**

**Review/Certification:** The President's Designee will review the Restructuring Plan Report and other materials submitted by the Company to determine whether the Company and its subsidiaries have taken all steps necessary to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries in accordance with its Restructuring Plan. If the President's Designee determines that these standards have been met, he will so certify (the "**Plan Completion Certification**").

**Termination Event:** If the President's Designee has not issued the Plan Completion Certification by March 31, 2009 or such later date (not to exceed 30 days after March 31, 2009) as the President's Designee may specify (the "**Certification Deadline**"), the maturity of the Loan shall be automatically accelerated and any portion of the Loan Amount not invested in or loaned to the Borrower's principal financial subsidiaries shall become due and payable on the 30th day after the Certification Deadline, without any further action on the part of the Lender.

**Reporting Requirements:** In addition to the foregoing, the Loan Parties shall deliver to Lender the following periodic reports and certifications:

1. Weekly status report, commencing with the week of December 15, 2008, detailing the 13-week rolling cash forecast for the Company and its subsidiaries (on a consolidated and consolidating basis);
2. Bi-weekly liquidity status report, commencing with the second week following the Closing Date, detailing, with respect to the Company and its subsidiaries (on a consolidated and consolidating basis): (i) the current liquidity profile; (ii) expected liquidity needs; (iii) any material changes in their business since the date of the last status report; (iv) any transfer, sale, pledge or other disposition of any material asset since the date of the last status report; and (v) any changes to their capital structure.
3. Monthly certification that (i) the Expense Policy conforms to the requirements set forth herein; (ii) the Company and its subsidiaries are in compliance with the Expense Policy; and (iii) there have been no material amendments thereto or deviations therefrom other than those that have been disclosed to and approved by Lender.
4. Monthly certification that all Benefit Plans with respect to Senior Executive Officers are in compliance with Section 111(b) of the EESA; and
5. Certified copies of all publicly filed financial reports and auditors opinions.

**Access to Information And Right to Audit:** At all times while the Facility is in effect, the Borrower(s) and each of their direct and indirect subsidiaries shall permit the Lender and its agents, consultants, contractors and advisors, and the Special Inspector General of the Troubled Assets Relief Program, access to personnel and any books, papers, records or other data that may be relevant to the financial assistance, including compliance with the financing terms and conditions.

**Representations**

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| **And Warranties:** | As of each day the Facility is in place, the Loan Parties shall be deemed to make customary corporate and asset-level representations and warranties to Lender. |

In addition, with respect to Warrants currently issued to the UST and to be issued to the UST under the Facility as provided below, the Borrower(s) will represent and warrant to the UST that, as of the date of this Indicative Summary of Terms and each date any Warrants are delivered, (i) the Warrants have been duly authorized and constitute a valid and legally binding obligation of the Company enforceable against it in accordance with its terms; (ii) the shares of common stock issuable upon exercise of the Warrants (the "**Warrant Shares**") have been duly authorized and reserved for issuance upon exercise of the Warrants, and when so issued in accordance with the terms of the Warrants will be validly issued, fully paid, and non-assessable; (iii) Loan Parties have the corporate power to enter into this Facility, to execute and deliver the related Facility documentation and the Warrants and to carry out its obligations hereunder and thereunder (which includes the issuance of the Warrants and Warrant Shares); (iv) the execution, delivery, and performance by Loan Parties of the Facility documents and the Warrants, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on their respective parts, and no further approval or authorization is required on their respective parts; (v) each Facility document, when executed and delivered by the applicable Loan Parties and Lender, is a valid, binding and enforceable obligation of each such Loan Party.

**Conditions Precedent to Closing:**

Closing of the Facility and the funding of the first Advance will be subject to, the satisfaction of customary conditions precedent, including but not limited to:

1. Execution of mutually satisfactory Facility documentation and completion of all conditions to funding contained therein;
2. Receipt of customary legal opinions from in-house, domestic and local foreign counsel to the Loan Parties acceptable to Lender including, but not limited to, security interest perfection, PTO filings and analogous foreign law opinions, general corporate matters and enforceability, and an Investment Company Act opinion;
3. Receipt of officer's certificates and standard closing documents and certificates with respect to each Loan Party, each in a form acceptable to Lender;
4. The Lender's interests in the Collateral shall be perfected in accordance with applicable law (except to the extent the interests will be perfected on a post-closing basis, as may be agreed to by the Lender) and all necessary waivers, amendments, approvals and consents to the pledge of such Collateral shall have been obtained;
5. With respect to Collateral on which Lender will have a first priority lien, evidence that all then-existing liens thereon have been released or will be released simultaneously with the funding of the first Advance;
6. With respect to Collateral on which Lender will have a lien of junior priority, an intercreditor agreement duly executed by the other lienholders, in form and substance acceptable to Lender in its sole discretion;

7. With respect to any equity investments that constitute Collateral, receipt of approvals duly executed by the Loan Parties' applicable creditors consenting to the pledge of such equity investments, to the extent required;
8. With respect to any real property that constitutes Collateral, receipt of an environmental indemnity from the applicable Loan Party;
9. Receipt of approvals duly executed by the Guarantor(s)' applicable creditors consenting to the guaranty, to the extent required;
10. A waiver shall have been duly executed by the Loan Parties and each SEO and delivered to the UST releasing the UST from any claims that the Loan Parties and/or the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;
11. A waiver shall have been duly executed by each SEO and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties from any claims the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;
12. A waiver shall have been duly executed by the Loan Parties and each Senior Employee and delivered to the UST releasing the UST from any claims that the Loan Parties and such Senior Employees may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;
13. A waiver shall have been duly executed by each Senior Employee and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties any claims that the SEOs may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;
14. No material pending or threatened litigation not otherwise disclosed to and approved by Lender;
15. Payment of all fees and expenses due at the Closing Date;
16. Satisfaction of the additional conditions precedent set forth on Appendix A; and
17. Delivery or performance (to the satisfaction of the Lender) of all other conditions to closing and due diligence items that may be requested by the Lender.

**Conditions Precedent to each Advance:** The obligation of Lender to make each Advance (including the initial Advance) will be subject to the satisfaction of the following conditions precedent:

1. No unmatured Event of Default or Event of Default shall have occurred and be continuing; and
2. Other customary conditions precedent.

**Covenants**

Unless waived by Lender, the Loan Parties shall be subject to customary covenants for this type of transaction (with certain exceptions to be mutually agreed), including, but not limited to the following negative covenants: (i) prohibition on redemption or buyback of any capital stock of the Company (other than pursuant to contracts existing as of December 2, 2008), (ii) restriction on transfer of assets, (iii) restriction on issuance of stock that would dilute the Warrants, (iv) negative pledge, (v) no fundamental change, (vi) limitation on transactions with affiliates, (vii) prohibitions on any dividends and distributions (or the economic equivalent) other than what is owed to unaffiliated entities pursuant to contract or law as of December 2, 2008, (viii) prompt notice of material adverse change with respect to any Loan Party, (ix) prohibition on creation of any new U.S. pension obligations until all U.S. pension plans maintained by the Company or any of its subsidiaries have been fully funded, and (x) such other covenants as may be deemed appropriate by Lender.

**Financial Covenants:** At all times, the Company must satisfy each of the financial covenants set forth on Appendix A.

**Events of Default:** Will include, but not be limited to each of the following events (as the same relates to each Loan Party):

1. Breach of representations, warranties or covenants or other terms and conditions of the Facility;
2. Default on any payment obligation under the Facility;
3. Bankruptcy/insolvency of any Borrower;
4. Going concern qualification with respect to any Borrower or any Guarantor in any correspondence from its accountants;
5. Change in control of any Borrower or any Guarantor;
6. Any Borrower's or any Guarantor's default under any other debt or prepayment obligations the outstanding principal balance of which equals or exceeds $10 million;
7. Lender ceases to have a perfected first or junior (as applicable) security interest or ownership interest in any material portion of the Collateral;
8. Cross default to any other facility or arrangement between any Borrower or any Guarantor or any of their affiliates and Lender.

Upon the occurrence of any of the foregoing, Lender shall have the option to declare that an Event of Default has occurred, at which time the Facility will terminate and all amounts owing with respect to the Facility will be immediately due and payable without presentment, demand, protest or notice of any kind, all of which shall be waived by the Loan Parties; provided, however, it is understood and agreed that a bankruptcy or insolvency of any Loan Party shall be immediately deemed an automatic Event of Default without the need for Lender to declare it as such. Lender shall be entitled to any and all remedies pursuant to the Facility documents and applicable law, each of which shall be cumulative and in addition to every other remedy available to the Lender.

**DIP Loan Conversion:** Upon the filing of a voluntary or involuntary bankruptcy petition by or in respect of any Loan Party, Lender shall have the exclusive right, exercisable at its option,

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| | to convert this Facility into a debtor-in-possession facility in form and substance acceptable to Lender. |
| **Joint and Several Liability:** | In the event of multiple Borrowers or Guarantors, such parties will be jointly and severally liable to Lender for all representations, warranties, covenants, obligations and liabilities of each of the Borrowers or Guarantors, as applicable, under the Facility. An unmatured Event of Default or an Event of Default of one party will be considered an unmatured Event of Default or an Event of Default by each party, and Lender shall have no obligation to proceed against one party before proceeding against the other party. Such parties shall waive any defense to their obligations under the Facility based upon or arising out of the disability or other defense or cessation of liability of one party versus the other. A party's subrogation claim arising from payments to Lender shall constitute a capital investment in another party subordinated to any claims of Lender, and equal to a ratable share of the equity interests in such party. |

**Summary of Warrant Terms**

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| **Warrant:** | Under the terms of the commitment, the UST will receive warrants to purchase common shares of the Company. |
| **Exercise Price Per Share:** | The 15 day trailing average price determined as of December 2, 2008. The exercise price per share shall be subject to anti-dilution adjustments. |
| **Amount:** | The total number of warrants will be equal to 20% of the Maximum Loan amount divided by the Exercise Price per Share, provided that the number of Warrants will be capped at 20% of the issued and outstanding common equity interests of the company, before giving effect to the exercise of the Warrants ("The Warrant Limit"). |
| **Additional Notes:** | In the event that the Warrant Limit reduces the number of Warrants issuable to the UST, the UST will receive Additional Notes in an amount equal to 6.67% of the Maximum Loan Amount less a sum equal to one-third of the number of Warrants actually granted to the UST times the Exercise Price Per Share. |
| **Term:** | Perpetual |
| **Exercisability:** | Immediately exercisable, in whole or in part, at 100% of its issue price plus all accrued and unpaid dividends. |
| **Transferability:** | The Warrants will not be subject to any contractual restrictions on transfer. The Company will file a shelf registration statement covering the Warrants and the Equity Interests underlying the Warrants as promptly as practicable after the date of the investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible; provided, however, that if the Company is not subject to the periodic reporting |

requirements of Section 13 or 15(d) of the Exchange Act, it need not file a shelf registration statement unless and until it becomes subject to such requirements. The Company will also grant to the UST piggyback registration rights for the Warrants and the Warrant Shares and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants and the Warrant Shares. The Company will apply for the listing of the Warrant Shares on the national exchange, if applicable, on which its Equity Interests are traded and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants or the Warrant Shares.

**Voting:** Prior to the occurrence of a Termination Event or an Event of Default, the UST will agree not to exercise voting power with respect to any shares of Equity Interests of the Company issued to it upon exercise of the Warrants.

**Consent:** In the event that the Company does not have sufficient available authorized shares of Equity Interests to reserve for issuance upon exercise of the Warrants and/or equityholder approval is required for such issuance under applicable stock exchange rules, the Company will call a meeting of its equity holders as soon as practicable after the date of this investment to increase the number of authorized shares of Equity Interests and/or comply with such exchange rules, and to take any other measures deemed by the UST to be necessary to allow the exercise of Warrants into Equity Interests.

**Substitution:** In the event that the Company is not listed or traded at any time on a national securities exchange or securities association, or the consent of the Company's stockholders described above has not been received within 6 months after the issuance date of the Warrants, the Warrants will be exchangeable, at the option of the UST, for senior term debt or another economic instrument or security of the Company such that the UST is appropriately compensated for the value of the Warrants, as determined by the UST.

**Optional Warrant Redemption:** At any time after the aggregate outstanding Advances, with interest thereon at the applicable Interest Rate, fees, expenses, indemnities and other amounts due to Lender shall have been paid in full, the Company shall have the right to repurchase any equity security of the Company held by the UST at fair market value or, if no recognized market for such securities exists at the time of prepayment, at the value attributed to such securities by an independent third party appraiser reasonably acceptable to Lender.

**Private Companies:** If the Company is privately held, in lieu of warrants, the UST will receive additional notes ("**Additional Notes**") with the same priority and general terms as the facility, in an amount equal to 6.67% of the Maximum Loan Amount.

**<u>Other Terms</u>**

**Fees and Expenses:** The Loan Parties shall be responsible for any and all legal fees, due diligence and other out-of-pocket expenses incurred by or on behalf of the Lender in connection with this Facility, whether or not the Facility closes or funds.

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| **Governing Law:** | Applicable Federal law (including conflicts of law rules), and in the absence of applicable Federal law, the law of the State of New York, without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 of the New York General Obligations Law). |
| **Not a Commitment:** | This term sheet is a summary of indicative terms and conditions purely for discussion purposes, does not constitute a commitment on the part of Lender and is not binding on Lender. All terms described herein are subject to due diligence satisfactory to Lender, receipt of all appropriate credit and other required internal and external approvals, final documentation satisfactory in form and substance to Lender and its legal counsel. |

**Appendix A to Secured Bridge Loan Facility**
**Chrysler**

**Additional Terms**

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| **Company:** | Chrysler Holding LLC |
| **Borrower(s):** | The Company and any successor entities thereto. |
| **Guarantor(s):** | CarCo Intermediate HoldCo I and all of its direct and indirect domestic subsidiaries, on a joint and several basis.<br><br>To the extent permissible under existing agreements, FinCo Intermediate HoldCo LC and DaimlerChrysler Financial Services Americas LLC (the "**Finance Companies**") shall guarantee the Loan Amount up to $2.0 billion. Any portion of the $2.0 billion amount that cannot be guaranteed by Finance Companies shall be paid from distributions received by the Borrower from the Finance Companies. |
| **Closing Date:** | December 29, 2008 |
| **Loan Amount:** | Up to $4.0 billion, available on the Closing Date. |
| **Use of Funds:** | The Borrower shall contribute the proceeds to Chrysler LLC simultaneously with the funding of Advances with respect thereto, to be used for general business purposes. |
| **Expiration Date:** | December 29, 2011 at 5:00 pm Washington, DC time. |
| **Payment Date:** | The last business day of each calendar quarter, commencing with the first calendar quarter in 2009. |
| **LIBOR Floor:** | 2.00% |
| **Spread Amount:** | 300 basis points; provided that upon the occurrence and during the continuance of an Event of Default, the Spread Amount shall be equal to 800 basis points. |
| **Financial Covenants:** | TBD |
| **Additional Conditions Precedent:** | The requisite majority of the holders of the Chrysler LLC first lien indebtedness and second lien indebtedness (under the Chrysler LLC First Lien Credit Agreement and Second Lien Credit Agreement) shall have consented in writing to the pledge to the Lender of the MOPAR Parts Inventory and the real estate collateral not mortgaged to such holders. |
| **Due Diligence Items and Closing Checklist:** | TBD |
| **Collateral:** | To the extent legally and contractually permissible, the applicable Loan Parties shall grant to Lender first-priority liens on all unencumbered assets, and junior liens on all encumbered assets. Notwithstanding anything herein to the contrary, the Loan Parties shall use their best efforts to obtain all necessary waivers, amendments, approvals, or consents, as the case may be, to enable the Loan Parties to grant any such lien to the Lender as security for their respective obligations under the Facility. |
| **Relevant Companies:** | Chrysler Holding LLC and Chrysler LLC |

**Indicative Summary of Terms for**
**Secured Term Loan Facility**

**December 19, 2008**

*Based upon the preliminary information provided to the United States Department of the Treasury (the "**UST**") regarding the proposed Facility, the following Summary of Terms outlines (for discussion purposes only) the key terms and conditions of a potential transaction. This Summary of Terms is not intended to be a comprehensive list of all relevant terms and conditions of the transactions contemplated herein. Further, these terms are subject to completion of due diligence, legal and other internal review and receipt of related approvals satisfactory to UST and any other approval procedures customary for a transaction of this nature. Final terms will be included in definitive documentation based on this Summary of Terms and executed by the applicable parties. This Summary of Terms is intended for the sole benefit of the Company identified on Appendix A and certain of its affiliates and shall not be relied upon by any other person.*

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| **Facility:** | A term loan that is full recourse to Borrower(s) (except as provided on Appendix A), secured by a first or junior lien, as applicable, on all of Borrower(s)' assets, and is subject to the terms and conditions contained herein and in the definitive Facility documentation. |
| **Borrower(s):** | As set forth on Appendix A. |
| **Lender:** | UST, on a committed basis. |
| **Guarantor(s):** | As set forth on Appendix A. The Borrower(s) and the Guarantor(s) shall hereinafter each be referred to as a "**Loan Party,**" and collectively, as "**Loan Parties.**" |
| **Closing Date:** | As set forth on Appendix A. |
| **Loan:** | Lender will make available to Borrower(s) a loan in an aggregate amount up to the amount set forth on Appendix A (the "**Loan Amount**") in predetermined draw amounts, as further specified on Appendix A. |
| **Availability:** | On the dates specified in Appendix A, Borrower(s) may request Lender to fund a draw up to an amount set forth on Appendix A for such date (each such funding, an "**Advance**"). At the time of each funding of an Advance by the Lender (each, an "**Advance Date**"), Borrower(s) shall be in compliance with all of the covenants, representations and warranties of this Facility.<br><br>Unless otherwise agreed by the UST, Borrower(s) must provide the UST with its request at least two (2) business days' prior to the date on which an Advance will be funded by Lender. For the avoidance of doubt, notice received by the UST after 5:00 pm Washington, DC time on any business day shall be deemed to be received on the following business day. |
| **Use of Funds:** | The Borrower(s) shall utilize the proceeds from the Advances as set forth on Appendix A. |

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| **Currencies:** | All Advances, prepayments and payments of fees and indemnities and any other payments under the Facility shall be made in United States Dollars. |
| **Collateral:** | As set forth on Appendix A. As security for Borrower(s)' performance of all of their obligations under the Facility and Guarantor(s)' performance of their obligations under the Guaranties, the applicable Loan Parties will grant to Lender a security interest in and to the Collateral (with the applicable lien priority specified with respect thereto on Appendix A). |
| **Maturity Date:** | The Facility will terminate and the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender, will be due and fully payable on the earliest of (i) the Expiration Date (as set forth on Appendix A), (ii) the occurrence of a Termination Event, or (iii) the occurrence of an Event of Default, at the option of the Lender. |
| **Interest Rate:** | Each Advance shall accrue interest at a rate per annum equal to (i) the sum of (x) the greater of (A) three-month LIBOR and (B) the LIBOR Floor, plus (y) the Spread Amount, multiplied by (ii) the outstanding principal balance of such Advance. The Interest Rate shall be determined on the Closing Date and reset on each Interest Payment Date and shall be calculated on a 360-day year basis for the actual number of days elapsed (including the first day but excluding the last day) occurring in the related Interest Period. Interest on the Advances shall be payable in arrears on each Interest Payment Date in respect of the previous Interest Period, and together with all outstanding principal and other amounts owing, on the Maturity Date. |
| **Interest Period:** | For each Advance, (i) initially, the period commencing on the related Advance Date and ending on the calendar day prior to the next succeeding Interest Payment Date, and (ii) thereafter, each period commencing on an Interest Payment Date and ending on the calendar day prior to next succeeding Interest Payment Date. Notwithstanding the foregoing, no Interest Period may end after the Maturity Date. |
| **Interest Payment Date:** | Set forth on Appendix A. |
| **LIBOR Floor:** | Set forth on Appendix A. |
| **Spread Amount:** | Set forth on Appendix A. |
| **Mandatory Prepayments:** | Subject to any mandatory prepayments from the following amounts required under existing secured credit agreements, Borrower(s) shall apply 100% of the net cash proceeds of any of the following transactions to prepay, on a pro rata basis, the aggregate outstanding Advances: (i) sales, liquidations or other transfers of any Collateral other than sales in the ordinary course of business, (ii) the incurrence by any Borrower of any debt (other than permitted indebtedness including the refinancing of prior indebtedness) or any equity or other capital raises (other than contributions of indemnity payments received by the Company and required to be applied to satisfy obligations of its subsidiaries), either public |

or private, whether in connection with a primary securities offering, a business combination of any kind, or otherwise, (iii) to the extent unencumbered, non-ordinary course asset sales (including aircraft divestments); provided that,with respect to clause (ii), in no event will any of the Collateral or Lender's security interest therein be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

**Optional Prepayments:**

Upon written notice to the Lender at least two business days in advance, Borrower(s) may prepay all or a portion of the outstanding Advances, without penalty; provided that in no event will any of the Collateral be released to the applicable Loan Party until the aggregate outstanding Advances, together with interest thereon at the applicable Interest Rate and all fees, expenses, indemnities and other amounts owing to Lender shall have been paid in full. Notwithstanding anything to the contrary contained herein, any amounts advanced and repaid cannot be reborrowed.

**Executive Privileges and Compensation:**

Until such time as the Facility is repaid in full and the UST ceases to own any equity securities of the Company acquired pursuant to this Facility (including any Warrants and underlying Equity Interests acquired by the UST upon exercise thereof) (the "**Relevant Period**"), the following restrictions on executive privileges and compensation shall apply to the "**Relevant Companies**," as defined on Annex A:

1. The Relevant Companies shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST's guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI;
2. The Relevant Companies and their respective SEOs (as defined below) shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI;
3. The Relevant Companies shall comply in all respects with the limits on annual executive compensation deductibles imposed by Section 162(m)(5) of Internal Revenue Code of 1986, as amended, as applicable;
4. None of the Relevant Companies shall pay or accrue any bonus or incentive compensation to the 25 most highly compensated employees (including the SEOs) (collectively, the "**Senior Employees**") except as approved by the President's Designee;
5. None of the Relevant Companies shall adopt or maintain any compensation plan that would encourage manipulation of their reported earnings to enhance the compensation of any of its employees; and
6. The Relevant Companies shall maintain all suspensions and other restrictions of contributions to Benefit Plans that are in place or initiated as of the Closing Date.

At any time during the Relevant Period, the Lender shall have the right to require any Relevant Company to claw back any bonuses or other compensation, including golden parachutes, paid to any Senior Employees in violation of any of the foregoing.

Within 120 days of the Closing Date, the principal executive officer (or person acting in a similar capacity) of each Relevant Company shall certify in writing, under penalty of perjury, to the Lender's Chief Compliance Officer that such Relevant Company's compensation committee has reviewed the compensation arrangements of the SEOs with its senior risk officers and determined that the compensation arrangements do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of such Relevant Company. Each Relevant Company shall preserve appropriate documentation and records to substantiate such certification in an easily accessible place for a period not less than three (3) years following the Maturity Date.

"**President's Designee**" means one or more officers from the Executive Branch designated by the President. "**SEOs**" means the Loan Parties' "senior executive officers" as defined in subsection 111(b)(3) of the EESA and regulations issued thereunder, including the rules set forth in 31 C.F.R. Part 30, or as otherwise may be defined by the UST. "**Benefit Plan**" means, collectively, any compensation, bonus, incentive and other benefit plans (including supplemental executive retirement plans), arrangements and agreements (including golden parachute, severance and employment agreements).

**Asset Divestment:** With respect to any private passenger aircraft or interest in such aircraft that is owned or held by any Loan Party or any subsidiary immediately prior to the Closing Date, such party shall demonstrate to the satisfaction of the President's Designee that it is taking all reasonable steps to divest itself of such aircraft or interest. Further, no Loan Party shall acquire or lease any such aircraft or interest in such aircraft.

**Material Transactions:** The Loan Parties shall provide prompt notice to the President's Designee of any asset sale, investment, contract, commitment, or other transaction not in the ordinary course of business proposed to be entered into with a value in excess of $100 million (a "**Material Transaction**"). The President's Designee shall have the right to review and prohibit any such Material Transaction if the President's Designee determines that it would be inconsistent with or detrimental to the long-term viability of such Loan Party.

**Restrictions on Expenses:** During the Relevant Period, the Company shall maintain and implement its comprehensive written policy on corporate expenses ("**Expense Policy**") and distribute the Expense Policy to all employees of the Company and its subsidiaries covered under the policy. Any material amendments to the Expense Policy shall require the prior written consent of the President's Designee, and any material deviations from the Expense Policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the the President's Designee.

The Expense Policy shall, at a minimum: (i) require compliance with all applicable law, (ii) apply to the Company and all of its subsidiaries, (iii) govern (a) the hosting, sponsorship or other payment for conferences and events, (b) travel accommodations and expenditures, (c) consulting arrangements with outside service providers, (d) any new lease or acquisition of real estate, (e) expenses relating to office or facility renovations or relocations, and (f) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight, and (b) mechanisms for addressing non-compliance with the policy.

**Restructuring Plan:** By no later than February 17, 2009, the Company shall submit to the President's Designee a plan to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries (the "**Restructuring Plan**"), which Restructuring Plan shall include specific actions intended to result in the following:

1. Repayment of the Loan Amount and any other financing extended by the Government under all applicable terms and conditions;
2. Ability of the Company and its subsidiaries to (x) comply with applicable Federal fuel efficiency and emissions requirements, and (y) commence domestic manufacturing of advanced technology vehicles, as described in section 136 of the Energy Independence and Security Act of 2007 (Public Law 110-140; 42 U.S.C. 17013);
3. Achievement by the Company and its subsidiaries of a positive net present value, using reasonable assumptions and taking into account all existing and projected future costs, including repayment of the Loan Amount and any other financing extended by the Government;
4. Rationalization of costs, capitalization, and capacity with respect to the manufacturing workforce, suppliers and dealerships of the Company and its subsidiaries; and
5. A product mix and cost structure that is competitive in the United States marketplace.

The Restructuring Plan shall extend through 2010 monthly and annually through 2014 and shall include detailed historical and projected financial statements with supporting schedules and additional information as may be requested by the President's Designee.

**Restructuring Targets:** In addition to the Restructuring Plan, the Company and its subsidiaries shall use their best efforts to achieve the following targets:

1. Reduction of their outstanding unsecured public indebtedness (other than with respect to pension and employee benefits obligations) by not less than two-thirds through conversion of existing public debt into equity or debt (a "**Bond Exchange**") and other appropriate means;
2. Reduction of the total amount of compensation, including wages and benefits, paid to their U.S. employees so that, by no later than December 31, 2009, the average of such total amount, per hour and per person, is an amount that is competitive with the average total amount of such compensation, as certified by the Secretary of Labor, paid per hour and per person to employees of with Nissan Motor Company, Toyota Motor

Corporation, or American Honda Motor Company whose site of employment is in the United States (the "**Compensation Reductions**");

3. Elimination of the payment of any compensation or benefits to U.S. employees of the Company or any subsidiary who have been fired, laid-off, furloughed, or idled, other than customary severance pay (the "**Severance Rationalization**").
4. Application of the work rules to their U.S. employees, beginning not later than December 31, 2009, in a manner that is competitive with Nissan Motor Company, Toyota Motor Corporation, or American Honda Motor Company whose site of employment is in the United States (the "**Work Rule Modifications**" and, together with the Compensation Reductions and Severance Rationalization, the "**Labor Modifications**"); and
5. Provision that not less than one-half of the value of each future payment or contribution made by them to the account of the voluntary employees beneficiary association (or similar account) ("**VEBA**") of a labor organization representing the employees of the Company and its subsidiaries shall be made in the form of the stock of the Company or one of its subsidiaries (the "**VEBA Modifications**"), and the total value of any such payment or contribution shall not exceed the amount of any such payment or contribution that was required for such time period under the collective bargaining agreement that applied as of the day before the Closing Date.

**Term Sheet Requirements:**

By no later than February 17, 2009, the Company shall submit to the President's Designee:

1. A term sheet signed on behalf of the Company and the leadership of each major U.S. labor organization that represents the employees of the Company and its subsidiaries (collectively, the "**Unions**") providing for the Labor Modifications; and
2. A term sheet signed on behalf of the Company and representatives of the VEBA providing for the VEBA Modifications; and
3. A term sheet signed on behalf of the Company and representatives of holders of the Company's public debt providing for the Bond Exchange.

**Restructuring Plan Report:**

On or before March 31, 2009, the Company shall submit to the President's Designee a written certification and report detailing the progress made by the Company and its subsidiaries in implementing the Restructuring Plan. The report shall identify any deviations from the Restructuring Targets and explain the rationale for these deviations, including an explanation of why such deviations do not jeopardize the Borrower's long-term viability. The report shall also include evidence satisfactory to the President's Designee that the following events have occurred:

1. Approval of the Labor Modifications by the members of the Unions;
2. Receipt of all necessary approvals of the VEBA Modifications other than regulatory and judicial approvals, provided that the Company must have filed and be diligently prosecuting applications for any necessary regulatory and judicial approvals; and
3. The commencement of an exchange offer to implement the Bond Exchange.

**President's Designee**

**Review/Certification:** The President's Designee will review the Restructuring Plan Report and other materials submitted by the Company to determine whether the Company and its subsidiaries have taken all steps necessary to achieve and sustain the long-term viability, international competitiveness and energy efficiency of the Company and its subsidiaries in accordance with its Restructuring Plan. If the President's Designee determines that these standards have been met, he will so certify (the "**Plan Completion Certification**").

**Termination Event:** If the President's Designee has not issued the Plan Completion Certification by March 31, 2009 or such later date (not to exceed 30 days after March 31, 2009) as the President's Designee may specify (the "**Certification Deadline**"), the maturity of the Loan shall be automatically accelerated and any portion of the Loan Amount not invested in or loaned to the Borrower's principal financial subsidiaries shall become due and payable on the $30^{th}$ day after the Certification Deadline, without any further action on the part of the Lender.

**Reporting Requirements:** In addition to the foregoing, the Loan Parties shall deliver to Lender the following periodic reports and certifications:

1. Weekly status report, commencing with the week of December 15, 2008, detailing the 13-week rolling cash forecast for the Company and its subsidiaries (on a consolidated and consolidating basis);
2. Bi-weekly liquidity status report, commencing with the second week following the Closing Date, detailing, with respect to the Company and its subsidiaries (on a consolidated and consolidating basis): (i) the current liquidity profile; (ii) expected liquidity needs; (iii) any material changes in their business since the date of the last status report; (iv) any transfer, sale, pledge or other disposition of any material asset since the date of the last status report; and (v) any changes to their capital structure.
3. Monthly certification that (i) the Expense Policy conforms to the requirements set forth herein; (ii) the Company and its subsidiaries are in compliance with the Expense Policy; and (iii) there have been no material amendments thereto or deviations therefrom other than those that have been disclosed to and approved by Lender.
4. Monthly certification that all Benefit Plans with respect to Senior Executive Officers are in compliance with Section 111(b) of the EESA; and
5. Certified copies of all publicly filed financial reports and auditors opinions.

**Access to Information And Right to Audit:** At all times while the Facility is in effect, the Borrower(s) and each of their direct and indirect subsidiaries shall permit the Lender and its agents, consultants, contractors and advisors, and the Special Inspector General of the Troubled Assets Relief Program, access to personnel and any books, papers, records or other data that may be relevant to the financial assistance, including compliance with the financing terms and conditions.

**Representations**

**And Warranties:** As of each day the Facility is in place, the Loan Parties shall be deemed to make customary corporate and asset-level representations and warranties to Lender.

In addition, with respect to Warrants currently issued to the UST and to be issued to the UST under the Facility as provided below, the Borrower(s) will represent and warrant to the UST that, as of the date of this Indicative Summary of Terms and each date any Warrants are delivered, (i) the Warrants have been duly authorized and constitute a valid and legally binding obligation of the Company enforceable against it in accordance with its terms; (ii) the shares of common stock issuable upon exercise of the Warrants (the "**Warrant Shares**") have been duly authorized and reserved for issuance upon exercise of the Warrants, and when so issued in accordance with the terms of the Warrants will be validly issued, fully paid, and non-assessable; (iii) Loan Parties have the corporate power to enter into this Facility, to execute and deliver the related Facility documentation and the Warrants and to carry out its obligations hereunder and thereunder (which includes the issuance of the Warrants and Warrant Shares); (iv) the execution, delivery, and performance by Loan Parties of the Facility documents and the Warrants, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by all necessary corporate action on their respective parts, and no further approval or authorization is required on their respective parts; (v) each Facility document, when executed and delivered by the applicable Loan Parties and Lender, is a valid, binding and enforceable obligation of each such Loan Party.

**Conditions Precedent to Closing:** Closing of the Facility and the funding of the first Advance will be subject to, the satisfaction of customary conditions precedent, including but not limited to:

1. Execution of mutually satisfactory Facility documentation and completion of all conditions to funding contained therein;
2. Receipt of customary legal opinions from in-house, domestic and local foreign counsel to the Loan Parties acceptable to Lender including, but not limited to, security interest perfection, PTO filings and analogous foreign law opinions, general corporate matters and enforceability, and an Investment Company Act opinion;
3. Receipt of officer's certificates and standard closing documents and certificates with respect to each Loan Party, each in a form acceptable to Lender;
4. The Lender's interests in the Collateral shall be perfected in accordance with applicable law (except to the extent the interests will be perfected on a post-closing basis, as may be agreed to by the Lender) and all necessary waivers, amendments, approvals and consents to the pledge of such Collateral shall have been obtained;
5. With respect to Collateral on which Lender will have a first priority lien, evidence that all then-existing liens thereon have been released or will be released simultaneously with the funding of the first Advance;
6. With respect to Collateral on which Lender will have a lien of junior priority, an intercreditor agreement duly executed by the other lienholders, in form and substance acceptable to Lender in its sole discretion;

7. With respect to any equity investments that constitute Collateral, receipt of approvals duly executed by the Loan Parties' applicable creditors consenting to the pledge of such equity investments, to the extent required;
8. With respect to any real property that constitutes Collateral, receipt of an environmental indemnity from the applicable Loan Party;
9. Receipt of approvals duly executed by the Guarantor(s)' applicable creditors consenting to the guaranty, to the extent required;
10. A waiver shall have been duly executed by the Loan Parties and each SEO and delivered to the UST releasing the UST from any claims that the Loan Parties and/or the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;
11. A waiver shall have been duly executed by each SEO and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties from any claims the SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI;
12. A waiver shall have been duly executed by the Loan Parties and each Senior Employee and delivered to the UST releasing the UST from any claims that the Loan Parties and such Senior Employees may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;
13. A waiver shall have been duly executed by each Senior Employee and delivered to the Loan Parties (with a copy to the UST) releasing the Loan Parties any claims that the SEOs may otherwise have as a result of the Loan Parties' failure to pay or accrue any bonus or incentive compensation as a result of the foregoing;
14. No material pending or threatened litigation not otherwise disclosed to and approved by Lender;
15. Payment of all fees and expenses due at the Closing Date;
16. Satisfaction of the additional conditions precedent set forth on Appendix A; and
17. Delivery or performance (to the satisfaction of the Lender) of all other conditions to closing and due diligence items that may be requested by the Lender.

**Conditions Precedent to each Advance:** The obligation of Lender to make each Advance (including the initial Advance) will be subject to the satisfaction of the following conditions precedent:

1. No unmatured Event of Default or Event of Default shall have occurred and be continuing; and
2. Other customary conditions precedent.

**Covenants** Unless waived by Lender, the Loan Parties shall be subject to customary covenants for this type of transaction (with certain exceptions to be mutually agreed), including, but not limited to the following negative covenants: (i) prohibition on redemption or buyback of any capital stock of the Company (other than pursuant to contracts existing as of December 2, 2008), (ii) restriction on transfer of assets, (iii) restriction on issuance of stock that would dilute the Warrants, (iv) negative pledge, (v) no fundamental change, (vi) limitation on transactions with affiliates, (vii) prohibitions on any dividends and distributions (or the economic equivalent) other than what is owed to unaffiliated entities pursuant to contract or law as of December 2, 2008, (viii) prompt notice of material adverse change with respect to any Loan Party, (ix) prohibition on creation of any new U.S. pension obligations until all U.S. pension plans maintained by the Company or any of its subsidiaries have been fully funded, and (x) such other covenants as may be deemed appropriate by Lender.

**Financial Covenants:** At all times, the Company must satisfy each of the financial covenants set forth on Appendix A.

**Events of Default:** Will include, but not be limited to each of the following events (as the same relates to each Loan Party):

1. Breach of representations, warranties or covenants or other terms and conditions of the Facility;
2. Default on any payment obligation under the Facility;
3. Bankruptcy/insolvency of any Borrower;
4. Going concern qualification with respect to any Borrower or any Guarantor in any correspondence from its accountants;
5. Change in control of any Borrower or any Guarantor;
6. Any Borrower's or any Guarantor's default under any other debt or prepayment obligations the outstanding principal balance of which equals or exceeds $10 million;
7. Lender ceases to have a perfected first or junior (as applicable) security interest or ownership interest in any material portion of the Collateral;
8. Cross default to any other facility or arrangement between any Borrower or any Guarantor or any of their affiliates and Lender.

Upon the occurrence of any of the foregoing, Lender shall have the option to declare that an Event of Default has occurred, at which time the Facility will terminate and all amounts owing with respect to the Facility will be immediately due and payable without presentment, demand, protest or notice of any kind, all of which shall be waived by the Loan Parties; provided, however, it is understood and agreed that a bankruptcy or insolvency of any Loan Party shall be immediately deemed an automatic Event of Default without the need for Lender to declare it as such. Lender shall be entitled to any and all remedies pursuant to the Facility documents and applicable law, each of which shall be cumulative and in addition to every other remedy available to the Lender.

**DIP Loan Conversion:** Upon the filing of a voluntary or involuntary bankruptcy petition by or in respect of any Loan Party, Lender shall have the exclusive right, exercisable at its option, to convert this Facility into a debtor-in-possession facility in form and substance acceptable to Lender.

**Joint and Several Liability:** In the event of multiple Borrowers or Guarantors, such parties will be jointly and severally liable to Lender for all representations, warranties, covenants, obligations and liabilities of each of the Borrowers or Guarantors, as applicable, under the Facility. An unmatured Event of Default or an Event of Default of one party will be considered an unmatured Event of Default or an Event of Default by each party, and Lender shall have no obligation to proceed against one party before proceeding against the other party. Such parties shall waive any defense to their obligations under the Facility based upon or arising out of the disability or other defense or cessation of liability of one party versus the other. A party's subrogation claim arising from payments to Lender shall constitute a capital investment in another party subordinated to any claims of Lender, and equal to a ratable share of the equity interests in such party.

**Summary of Warrant Terms**

**Warrant:** Under the terms of the commitment, the UST will receive warrants to purchase common shares of the Company.

**Exercise Price Per Share:** The 15 day trailing average price determined as of December 2, 2008. The exercise price per share shall be subject to anti-dilution adjustments.

**Amount:** The total number of warrants will be equal to 20% of the Maximum Loan amount divided by the Exercise Price per Share, provided that the number of Warrants will be capped at 20% of the issued and outstanding common equity interests of the company, before giving effect to the exercise of the Warrants ("The Warrant Limit").

**Additional Notes:** In the event that the Warrant Limit reduces the number of Warrants issuable to the UST, the UST will receive Additional Notes in an amount equal to 6.67% of the Maximum Loan Amount less a sum equal to one-third of the number of Warrants actually granted to the UST times the Exercise Price Per Share.

**Term:** Perpetual

**Exercisability:** Immediately exercisable, in whole or in part, at 100% of its issue price plus all accrued and unpaid dividends.

**Transferability:** The Warrants will not be subject to any contractual restrictions on transfer. The Company will file a shelf registration statement covering the Warrants and the Equity Interests underlying the Warrants as promptly as practicable after the date of the investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible; provided, however, that if the Company is not subject to the periodic reporting requirements of Section 13 or 15(d) of the Exchange Act, it need not file a shelf registration statement unless and until it becomes subject to such requirements. The Company will also grant to the UST piggyback registration rights for the Warrants and the Warrant Shares and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants and the Warrant Shares. The Company will apply for the listing of the Warrant Shares on the national exchange, if applicable, on which its Equity Interests are traded and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrants or the Warrant Shares.

**Voting:** Prior to the occurrence of a Termination Event or an Event of Default, the UST will agree not to exercise voting power with respect to any shares of Equity Interests of the Company issued to it upon exercise of the Warrants.

**Consent:** In the event that the Company does not have sufficient available authorized shares of Equity Interests to reserve for issuance upon exercise of the Warrants and/or equityholder approval is required for such issuance under applicable stock exchange rules, the Company will call a meeting of its equity holders as soon as practicable after the date of this investment to increase the number of authorized shares of Equity Interests and/or comply with such exchange rules, and to take any other measures deemed by the UST to be necessary to allow the exercise of Warrants into Equity Interests.

**Substitution:** In the event that the Company is not listed or traded at any time on a national securities exchange or securities association, or the consent of the Company's stockholders described above has not been received within 6 months after the issuance date of the Warrants, the Warrants will be exchangeable, at the option of the UST, for senior term debt or another economic instrument or security of the Company such that the UST is appropriately compensated for the value of the Warrants, as determined by the UST.

**Optional Warrant Redemption:** At any time after the aggregate outstanding Advances, with interest thereon at the applicable Interest Rate, fees, expenses, indemnities and other amounts due to Lender shall have been paid in full, the Company shall have the right to repurchase any equity security of the Company held by the UST at fair market value or, if no recognized market for such securities exists at the time of prepayment, at the value attributed to such securities by an independent third party appraiser reasonably acceptable to Lender.

**Private Companies:** If the Company is privately held, in lieu of warrants, the UST will receive additional notes ("**Additional Notes**") with the same priority and general terms as the facility, in an amount equal to 6.67% of the Maximum Loan Amount.

## Other Terms

**Fees and Expenses:** The Loan Parties shall be responsible for any and all legal fees, due diligence and other out-of-pocket expenses incurred by or on behalf of the Lender in connection with this Facility, whether or not the Facility closes or funds.

**Governing Law:** Applicable Federal law (including conflicts of law rules), and in the absence of applicable Federal law, the law of the State of New York, without regard to conflict of laws doctrine applied in such state (other than Section 5-1401 of the New York General Obligations Law).

**Not a Commitment:** This term sheet is a summary of indicative terms and conditions purely for discussion purposes, does not constitute a commitment on the part of Lender and is not binding on Lender. All terms described herein are subject to due diligence satisfactory to Lender, receipt of all appropriate credit and other required internal and external approvals, final documentation satisfactory in form and substance to Lender and its legal counsel.

**Appendix A to Secured Term Loan Facility**

**Appendix A to Secured Term Loan Facility**
**GM**

**Additional Terms**

| | |
|---|---|
| **Company/Borrower:** | General Motors Corporation |
| **Guarantor(s):** | All material domestic subsidiaries of the Borrower and any successor entity thereto, on a joint and several basis. |
| **Closing Date:** | December 29, 2008 |
| **Loan Amount:** | Up to $13.40 billion, to be made available to Borrower, upon request, as follows (subject to the Loan Parties' satisfaction of the other terms and conditions of the Facility):<br>Closing Date: $4.0 billion.<br>January 16, 2009: $5.4 billion.<br>February 17, 2009: $4.0 billion, contingent on Congressional action. |
| **Use of Funds:** | The funds advanced may be used by the Borrower for general business purposes. |
| **Expiration Date:** | December 29, 2011 at 5:00 pm Washington, DC time. |
| **Payment Date:** | The last business day of each calendar quarter, commencing with the first calendar quarter in 2009. |
| **LIBOR Floor:** | 2.00% |
| **Spread Amount:** | 300 basis points; provided that upon the occurrence and during the continuance of an Event of Default, the Spread Amount shall be equal to 800 basis points. |
| **Financial Covenants:** | TBD |
| **Additional Conditions Precedent:** | The Common Holders of the Class A Membership Interests of GMAC LLC and holders of the Class C Membership Interests of GMAC LLC shall have consented in writing to the pledge to Lender of the Class B Membership Interests and the Preferred Membership Interests under this Facility. |
| **Collateral:** | To the extent legally and contractually permissible, the applicable Loan Parties shall grant to Lender first-priority liens on all unencumbered assets, and junior liens on all encumbered assets. Notwithstanding anything herein to the contrary, the Loan Parties shall use their best efforts to obtain all necessary waivers, amendments, approvals, or consents, as the case may be, to enable the Loan Parties to grant any such lien to the Lender as security for their respective obligations under the Facility. |
| **Relevant Companies:** | General Motors Corporation |

## Treasury Continuing Actions to Strengthen Economy

12/22/2008

The Treasury Department is continuing comprehensive actions to strengthen public confidence in our financial institutions and restore functioning of our credit markets. The Capital Purchase Program is designed to attract broad participation by healthy institutions, stabilize the financial system and increase lending for the benefit of the U.S. economy and the American people.

**LINKS**

- More on the Emergency Economic Stabilization Act

# Treasury Provides TARP Funds to Local Banks

12/23/2008

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HP-1334

**Washington**- The U.S. Treasury Department announced today details of a $2.8 billion investment in 49 banks made on Friday, December 19 through its Capital Purchase Program. Treasury also closed $1.9 billion in transactions with 43 banks today. Full details of today's transactions will be released in accordance with the Emergency Economic Stabilization Act on Monday, December 29, two business days after their closing.

Treasury created the Capital Purchase Program, a part of the Troubled Asset Relief Program, to help to stabilize and strengthen the U.S. financial system. Treasury allocated $250 billion under TARP's Capital Purchase Program to invest in U.S. financial institutions. To date, the Department has made $162 billion of investments, receiving preferred stock and warrants from participating institutions. Investments have ranged from as small as $1.5 million to as large as $25 billion, financing community banking and Community Development Financial Institutions in 41 states and Puerto Rico.

Institutions that sell shares to the government must comply with restrictions on executive compensation during the period that Treasury holds equity issued through this program and agree to limitations on dividends and stock repurchases. Information about Treasury's Troubled Asset Relief Program can be found at http://www.treas.gov/initiatives/eesa/.

**LINKS**

- Treasury announced the following transaction details today (PDF)

Treasury announced the following transaction details today:

| Seller | | | Price Paid |
|---|---|---|---|
| Name of Institution | City | State | |
| Intermountain Community Bancorp | Sandpoint | ID | $27,000,000 |
| Community West Bancshares | Goleta | CA | $15,600,000 |
| Synovus Financial Corp. | Columbus | GA | $967,870,000 |
| Tennessee Commerce Bancorp, Inc. | Franklin | TN | $30,000,000 |
| Community Bankers Trust Corporation | Glen Allen | VA | $17,680,000 |
| BancTrust Financial Group, Inc. | Mobile | AL | $50,000,000 |
| Enterprise Financial Services Corp. | St. Louis | MO | $35,000,000 |
| Mid Penn Bancorp, Inc. | Millersburg | PA | $10,000,000 |
| Summit State Bank | Santa Rosa | CA | $8,500,000 |
| VIST Financial Corp. | Wyomissing | PA | $25,000,000 |
| Wainwright Bank & Trust Company | Boston | MA | $22,000,000 |
| Whitney Holding Corporation | New Orleans | LA | $300,000,000 |
| The Connecticut Bank and Trust Company | Hartford | CT | $5,448,000 |
| CoBiz Financial Inc. | Denver | CO | $64,450,000 |
| Santa Lucia Bancorp | Atascadero | CA | $4,000,000 |
| Seacoast Banking Corporation of Florida | Stuart | FL | $50,000,000 |
| Horizon Bancorp | Michigan City | IN | $25,000,000 |
| Fidelity Southern Corporation | Atlanta | GA | $48,200,000 |
| Community Financial Corporation | Staunton | VA | $12,643,000 |
| Berkshire Hills Bancorp, Inc. | Pittsfield | MA | $40,000,000 |
| First California Financial Group, Inc | Westlake Village | CA | $25,000,000 |
| AmeriServ Financial, Inc | Johnstown | PA | $21,000,000 |
| Security Federal Corporation | Aiken | SC | $18,000,000 |
| Wintrust Financial Corporation | Lake Forest | IL | $250,000,000 |
| Flushing Financial Corporation | Lake Success | NY | $70,000,000 |
| Monarch Financial Holdings, Inc. | Chesapeake | VA | $14,700,000 |
| StellarOne Corporation | Charlottesville | VA | $30,000,000 |
| Union Bankshares Corporation | Bowling Green | VA | $59,000,000 |
| Tidelands Bancshares, Inc | Mt. Pleasant | SC | $14,448,000 |
| Bancorp Rhode Island, Inc. | Providence | RI | $30,000,000 |
| Hawthorn Bancshares, Inc. | Lee's Summit | MO | $30,255,000 |
| The Elmira Savings Bank, FSB | Elmira | NY | $9,090,000 |
| Alliance Financial Corporation | Syracuse | NY | $26,918,000 |
| Heartland Financial USA, Inc. | Dubuque | IA | $81,698,000 |
| Citizens First Corporation | Bowling Green | KY | $8,779,000 |
| FFW Corporation | Wabash | IN | $7,289,000 |
| Plains Capital Corporation | Dallas | TX | $87,631,000 |
| Tri-County Financial Corporation | Waldorf | MD | $15,540,000 |
| OneUnited Bank | Boston | MA | $12,063,000 |
| Patriot Bancshares, Inc. | Houston | TX | $26,038,000 |
| Pacific City Finacial Corporation | Los Angeles | CA | $16,200,000 |
| Marquette National Corporation | Chicago | IL | $35,500,000 |
| Exchange Bank | Santa Rosa | CA | $43,000,000 |
| Monadnock Bancorp, Inc. | Peterborough | NH | $1,834,000 |
| Bridgeview Bancorp, Inc. | Bridgeview | IL | $38,000,000 |
| Fidelity Financial Corporation | Wichita | KS | $36,282,000 |
| Patapsco Bancorp, Inc. | Dundalk | MD | $6,000,000 |
| NCAL Bancorp | Los Angeles | CA | $10,000,000 |
| FCB Bancorp, Inc. | Louisville | KY | $9,294,000 |

## Treasury Announces TARP Investment in GMAC

12/29/2008

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hp1335

**Washington, DC –*****The Treasury Department today announced that it will purchase $5 billion in senior preferred equity with an 8% dividend from GMAC LLC as part of a broader program to assist the domestic automotive industry in becoming financially viable.***

The Treasury Department today announced that it will purchase $5 billion in senior preferred equity with an 8% dividend from GMAC LLC as part of a broader program to assist the domestic automotive industry in becoming financially viable.

Under the agreement GMAC must be in compliance with the executive compensation and corporate governance requirements of Section 111 of the Emergency Economic Stabilization Act, as well as enhanced restrictions on executive compensation.

GMAC will issue warrants to Treasury in the form of additional preferred equity in an amount equal to 5% of the preferred stock purchase that will pay a 9% dividend if exercised.

Additionally, the Treasury has agreed to lend up to $1 billion to General Motors so that GM can participate in a rights offering at GMAC in support of GMAC's reorganization as a bank holding company. This commitment is in addition to the assistance previously announced for GM on Dec. 19. This loan will be exchangeable at any time, at Treasury's option, into the GMAC equity interests being acquired by GM in the rights offering. Furthermore, this loan will be secured and will have other terms and conditions as outlined in the attached term sheet. The ultimate level of funding under this facility will be dependent upon the level of current investor participation in the rights offering at GMAC.

Treasury exercised this funding authority under the Emergency Economic Stabilization Act's Troubled Asset Relief Program (TARP). The preferred stock purchase and the loan to support GMAC's rights offering are part of an auto industry-focused TARP program that will include the $17.4 billion in assistance for domestic automakers announced earlier this month.

As previously indicated, Treasury will work with Congress and the President-elect's transition team on the appropriate timing for release of the remainder of the TARP funds to support financial market stability.

**-30-**

**REPORTS**

- Term Sheet
- Commitment Letter

# RESPONSES TO QUESTIONS

OF THE FIRST REPORT OF THE CONGRESSIONAL OVERSIGHT PANEL

FOR ECONOMIC STABILIZATION

Department of the Treasury

December 30, 2008

**Question 1: What is Treasury's strategy?**

**Answer:**
The Nation has been experiencing an unprecedented period of financial market turmoil with market events occurring rapidly and unpredictably. The Treasury Department has responded and adapted quickly to these events. Throughout the crisis, Treasury's strategy has been to work in coordination with all government agencies to use all the tools available to the government to achieve the following critical objectives:

- Stabilize financial markets and reduce systemic risk
- Support the housing market by avoiding preventable foreclosures and supporting mortgage finance
- Protect taxpayers.

The measures taken by Treasury under the Emergency Economic stabilization Act (EESA) are part of a comprehensive strategy by Treasury and the federal regulators since the onset of the crisis to stabilize the financial system and housing markets, and strengthen our financial institutions. Treasury has acted quickly and creatively in coordination with the Federal Reserve, the FDIC, OTS, and the OCC to help stabilize the financial system. In addition, because the crisis is global in nature, Treasury and the Federal Reserve have also worked in close coordination with Finance Ministries and major Central Banks around the world, which have taken similar measures to stabilize their financial systems. It is clear that our coordinated actions have made an impact. Our coordinated effort to strengthen our financial institutions so they can support our economy is critical to working through the current economic downturn.

The following is a list of many of the actions taken by Treasury and other federal agencies as part of our comprehensive approach. Detailed information on all of these programs is available on websites of the respective federal agencies.

**a) Actions to Stabilize Financial Markets**

- **Term Asset-Backed Securities Loan Facility (TALF):** Treasury is providing TARP support for this program, which was created by the Federal Reserve, to support consumer lending. The TALF will help market participants meet the credit needs of households and small businesses by supporting the issuance of asset-backed securities (ABS) collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration.
- **Term Auction Facility (TAF):** Under the TAF, the Federal Reserve auctions term funds to depository institutions. All depository institutions that are eligible to borrow under the primary credit program are eligible to participate in TAF auctions. All advances must be fully collateralized.
- **Term Securities Lending Facility (TSLF):** Under the TSLF, the Federal Reserve lends Treasury securities to primary dealers secured by a pledge of other securities, including federal agency debt, federal agency residential mortgage-backed securities, and non-agency AAA/Aaa-rated private-label residential MBS.
- **Primary Dealer Credit Facility (PDCF):** The PDCF is an overnight loan facility that provides funding to primary dealers in exchange for a specified range of eligible

collateral. On September 14, 2008, the Federal Reserve announced that collateral eligible to be pledged at the PDCF had been broadened. The program is intended to foster the functioning of financial markets more generally.

- **Money Market Investor Funding Facility (MMIFF):** The MMIFF supports a private-sector initiative designed to provide liquidity to U.S. money market investors. Under the MMIFF, the Federal Reserve Bank of New York (FRBNY) provides senior secured funding to a series of special purpose vehicles to facilitate an industry-supported private-sector initiative to finance the purchase of eligible assets from eligible investors.
- **Temporary Guarantee Program for Money Market Mutual Funds:** This program offers unprecedented government insurance in order to address concerns about the safety and accessibility of these investments and enhance market confidence. Treasury quickly set this program up after a mutual fund "broke the buck" for the second time in history.
- **Commercial Paper Funding Facility (CPFF)**: The Federal Reserve created the CPFF to provide a liquidity backstop to U.S. issuers of commercial paper. The CPFF is intended to improve liquidity in short-term funding markets and thereby contribute to greater availability of credit for businesses and households. Under the CPFF, FRBNY finances the purchase of highly-rated unsecured and asset-backed commercial paper from eligible issuers via eligible primary dealers.
- **Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility:** The Federal Reserve established this lending facility to provide funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds under certain conditions. The program is intended to assist money funds that hold such paper in meeting demands for redemptions by investors and to foster liquidity in the ABCP market and money markets more generally.
- **Swap Lines with Foreign Central Banks:** On September 29, 2008 the Federal Reserve authorized a $330 billion expansion of its temporary reciprocal currency arrangements (swap lines). The Federal Reserve enacted this program to improve the distribution of dollar liquidity around the globe and it is available to other central banks through April 30, 2009. The program was enacted because, at the time, dollar funding rates abroad had been elevated relative to dollar funding rates available in the U.S., reflecting a structural dollar funding shortfall outside of the U.S. The increase in the amount of foreign exchange swap authorization limits enabled many foreign central banks to increase the amount of dollar funding that they can provide in their home markets.

**b) Actions to Strengthen U.S. Financial Institutions**

- **Temporary Increase in Deposit Insurance:** On October 3, as part of the EESA, the FDIC temporarily raised the deposit insurance limit from $100,000 to $250,000 for all deposit categories until December 31, 2009.
- **Temporary Liquidity Guarantee Program (TLGP):** On October 14, 2008, the FDIC established the TLGP in the following two parts:
    - Debt Guarantee Program (DGP): The DGP temporarily guarantees all senior unsecured debt newly issued by FDIC-insured institutions and certain holding companies on or after October 14, 2008, through June 30, 2009.

- Transaction Account Guarantee Program: the FDIC also temporarily provides full deposit insurance coverage to deposits in non-interest bearing transaction accounts (mainly payment processing accounts) until December 31, 2009.

- **Capital Purchase Program (CPP):** The CPP is a key component of the TARP. Treasury established this voluntary program to stabilize financial markets by providing capital to healthy institutions, increasing the flow of credit to businesses and consumers and supporting the U.S. economy. Under the CPP, Treasury will purchase up to $250 billion of senior preferred shares on standardized terms as described in the program's term sheet. The program is available to qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies engaged only in financial activities. Institutions participating in the program must adopt the Treasury Department's standards for executive compensation and corporate governance for the period during which Treasury holds equity issued under this program.
- **Systemically Significant Failing Institutions Program (SSFI):** The SSFI program is another key component of the TARP. Treasury will provide capital on a case-by-case basis to systemically significant institutions that are at substantial risk of failure. In determining eligibility, Treasury may consider the following, among other factors: the extent to which the failure of an institution could threaten the viability of its creditors and counterparties; the number and size of financial institutions that are seen by investors or counterparties as similarly situated to the failing institution, or that would otherwise be likely to experience indirect contagion effects from the failure of the institution; whether the institution is sufficiently important to the nation's financial and economic system; or the extent and probability of the institution's ability to access alternative sources of capital and liquidity.

**c) Initiatives to Support the U.S. Housing Market**

- **FHA*Secure*:** Announced by HUD in August 2007, the FHA*Secure* program offers homeowners who have missed payments an opportunity to refinance into affordable FHA-insured loans. More than 450,000 homeowners have refinanced through FHA*Secure* since the launch of the program.
- **HOPE NOW:** In October 2007, Treasury actively helped facilitate the creation of the HOPE NOW Alliance, a private sector coalition of mortgage market participants and non-profit housing counselors. HOPE NOW servicers represent more than 90 percent of the subprime mortgage market and 70 percent of the prime mortgage market. Since inception, HOPE NOW has kept roughly 2.9 million homeowners in their homes through modifications and repayment plans, and it is currently helping more than 200,000 borrowers per month.
- **Stabilizing Fannie Mae and Freddie Mac**: Treasury took aggressive actions in 2008 to stabilize and strengthen Fannie Mae and Freddie Mac, and prevent the collapse of two institutions with $5.4 trillion in debt and mortgage-backed securities held by investors and financial institutions throughout the United States and the world. The systemic importance of these two enterprises, and the systemic impact of a collapse of either, cannot be overstated. Treasury's efforts to stabilize them by effectively guaranteeing their debt has increased the flow of mortgage credit and insulated mortgage rates from the rapid increases and fluctuations in the cost of other credit.

- **Hope for Homeowners**: On October 1, 2008, HUD implemented Hope for Homeowners, a new FHA program, available to lenders and borrowers on a voluntary basis, that insures refinanced affordable mortgage loans for distressed borrowers to support long-term sustainable homeownership.
- **Streamlined Loan Modification Program:** On November 11, 2008, Treasury joined with the FHFA, the GSEs, and HOPE NOW to announce a major streamlined loan modification program to move struggling homeowners into affordable mortgages. The program, implemented on December 15, 2008, creates sustainable monthly mortgage payments by targeting a benchmark ratio of housing payments to monthly gross household income (38%). Additionally, on November 20, 2008, Fannie Mae and Freddie Mac announced that they would suspend foreclosure sales and cease evictions of owner-occupied homes to allow time for implementation of the modification program.
- **Subprime Fast-Track Loan Modification Framework:** Treasury worked with the American Securitization Forum to develop a loan modification framework to allow servicers to modify or refinance loans more quickly and systematically. Subprime ARM borrowers who are current but ineligible to refinance may be offered a loan modification freezing the loan at the introductory rate for five years.

Treasury, working with the Federal Reserve, the FDIC and other regulators, has taken the necessary steps to prevent a financial collapse. The authorities and flexibility granted to the Treasury Department by Congress have been essential to developing the programs necessary to meet these objectives. Strong financial institutions and a stable financial system will smooth the path to economic recovery and an eventual return to prosperity.

**Question 1b: What specific facts changed that led to your change in strategy?**

**Answer**:
In the discussions with the Congress in mid-September during consideration of the financial rescue package legislation, Treasury focused on an initial plan to purchase illiquid mortgage assets in order to remove the uncertainty regarding banks' capital strength. At the same time, Treasury worked hard with the Congress to build maximum flexibility into the law to enable Treasury to adapt our policies and strategies to address market challenges that may arise.

In the weeks after Secretary Paulson and Chairman Bernanke first went to the Congress, market conditions deteriorated at an unprecedented and accelerating rate. One key measure Treasury assessed was the LIBOR-OIS spread – a key gauge of funding pressures and perceived counterparty credit risk. Typically between 5 – 10 basis points, on September 1, the one month spread was 47 basis points. By September 18$^{th}$, when Treasury first went to Congress, the spread had climbed 88 basis points to 135 basis points. By the time the bill passed, just two week later on October 3, the spread had climbed another 128 basis points to 263 basis points. By October 10, LIBOR-OIS spread rose another 75 basis points to 338 basis points. During this period, credit markets effectively froze. The commercial paper market shut down, 3-month Treasuries dipped below zero, and a money market mutual fund "broke the buck" for only the second time in history, precipitating a $200 billion net outflow of funds from that market.

Given such market conditions, Secretary Paulson and Chairman Bernanke recognized that Treasury needed to use the authority and flexibility granted under the EESA as aggressively as possible to help stabilize the financial system. They determined the fastest, most direct way was to increase capital in the system by buying equity in healthy banks of all sizes. Illiquid asset purchases, in contrast, require much longer to execute.

Treasury then began immediately designing a capital program to complement the asset purchase programs under development. Since launching the program on October 14, 2008, we have invested $162 billion in 208 institutions of all sizes across the country.

As Treasury continued very serious preparations and exploration of purchasing illiquid assets, scale became a factor; for an asset purchase program to be effective, it must be done in very large scale. With $250 billion allocated for the CPP, Treasury considered whether there was sufficient capacity in the TARP for an asset purchase program to be effective. In addition, each dollar invested in capital can have a bigger impact on the financial system than a dollar of asset purchase; capital injections provide better "bang for the buck."

As markets continued to deteriorate through October, it became clear that the preservation of market stability would require that Treasury support non-bank financial institutions and the securitization market, both of which are crucial sources of lending for consumers and business of all sizes.

**Question 2: Is the strategy working to stabilize markets?**

**Answer:**
Yes. The most important evidence that our strategy is working is that Treasury's actions, in combination with other actions, stemmed a series of financial institution failures. The financial system is fundamentally more stable than it was when Congress passed the legislation. While it is difficult to isolate one program's effects given policymakers' numerous actions, one indicator that points to reduced risk of default among financial institutions is the average credit default swap spread for the eight largest U.S. banks, which has declined by about 240 basis points since before Congress passed the EESA. Another key indicator of perceived risk is the spread between LIBOR and OIS: 1 month and 3-month LIBOR-OIS spreads have declined about 220 and 145 basis points, respectively, since the law was signed and about 310 and 240 basis points, respectively, from their peak levels before the CPP was announced.

Treasury is also monitoring the effects our strategy is having on lending, although it is important to note that nearly half the money allocated to the Capital Purchase Program has yet to be received by the banks. Treasury is executing at a rapid speed, but it will take some time to review and fund all the remaining applications. Clearly this capital needs to get into the system before it can have the desired effect. In addition, we are still at a point of low confidence – both due to the financial crisis and the economic downturn. As long as confidence remains low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, Treasury expects to see more credit extended.

The increased lending that is vital to our economy will not materialize as fast as anyone would like, but it will happen much faster as a result of deploying resources from the TARP to stabilize the system and increase capital in our banks.

**Question 3: Is the strategy helping to reduce foreclosures?**

**Answer:**
Yes. Treasury has moved aggressively to keep mortgage financing available and develop new tools to help homeowners. Specifically, Treasury has achieved the following three key accomplishments:

1. To support the housing and mortgage market, Treasury acted earlier this year to prevent the failure of Fannie Mae and Freddie Mac, the housing GSEs that affect over 70 percent of mortgage originations. These institutions are systemically critical to financial and housing markets, and their failure would have materially exacerbated the recent market turmoil and profoundly impacted household wealth. Mortgage finance is available today on attractive terms because of Treasury's actions with the Federal Reserve and the Federal Housing Finance Agency to stabilize Fannie Mae and Freddie Mac. In addition, Treasury and the Federal Reserve have both announced programs to purchase GSE mortgage-backed securities. These programs are lowering borrowing rates for homeowners, to both purchase homes and to refinance into more affordable mortgages.

2. October 2007, Treasury helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. HOPE NOW estimates that roughly 2.9 million homeowners have been helped by the industry since July 2007; the industry is now helping more than 200,000 homeowners a month avoid foreclosure. In addition, Treasury worked with HOPE NOW and the ASF to develop a fast-track loan modification program to modify loans of subprime ARM borrowers facing unaffordable rate resets.

3. Treasury worked with HOPE NOW, FHFA and the GSEs to achieve a major industry breakthrough in November 2008 with the announcement of a streamlined loan modification program that builds on the mortgage modification protocol developed by the FDIC for IndyMac. By targeting a benchmark ratio of housing payments to gross monthly household income, HOPE NOW servicers and the GSEs will have greater ability to quickly and efficiently create sustainable monthly mortgage payments for troubled borrowers. Potentially hundreds of thousands more struggling borrowers will be enabled to stay in their homes at an affordable monthly mortgage payment. Many private-label mortgage-backed securities pooling and servicing agreements reference the GSE servicing standards, giving this new program reach far beyond GSE loans.

An important complement to those guidelines was the GSEs' announcement on November 20, 2008 that they will suspend all foreclosures for 90 days. The foreclosure suspension will give homeowners and servicers time to utilize the new streamlined loan modification program and make it possible for more families to work out terms to stay in their homes.

**Question 4: What have financial institutions done with the taxpayers' money received so far?**

**Answer:**
The goal of the Capital Purchase Program is to stabilize the financial system and restore confidence in financial institutions, which will increase the flow of credit. To date, 208 financial institutions of all sizes have received investments through the CPP. These institutions include regional, small and community banks, as well as Community Development Finance Institutions, all of which play a vital role in their communities. We expect communities of all sizes to benefit from the investments into these institutions, which now have an enhanced capacity to perform their vital functions, including lending to U.S. consumers and businesses and promoting economic growth.

As the GAO noted in its report, given the number and variety of financial stability actions being put in place by multiple entities, it will be challenging to view the impact of the Capital Purchase Program in isolation and at the institutional level. Moreover, each individual financial institution's circumstances are different, making comparisons challenging at best, and it is difficult to track where individual dollars flow through an organization. Nonetheless, Treasury is working with the banking regulators to develop appropriate measurements and Treasury is focused on determining the extent to which the CPP is having its desired effect.

The CPP began in October 2008 and the money must work its way into the system before it can have the desired effect. Moreover, we are still at a point of low confidence – both due to the credit crisis and due to the economic downturn, during which lending and borrowing levels normally drop. While confidence is low, banks will remain cautious about extending credit, and consumers and businesses will remain cautious about taking on new loans. As confidence returns, we expect to see more credit extended. This lending won't materialize as fast as anyone would like, but it will happen much faster as a result of having used the TARP to stabilize the system and to increase the capital in our banks.

We also know that credit quality at banks is deteriorating. This has led banks to build up their loan loss reserves and to work with troubled borrowers to restructure loans. The level of loan loss provisioning by banks doubled in the third quarter from one year ago, putting pressure on bank earnings and capital. By injecting new capital into healthy banks, the CPP has helped banks maintain strong balance sheets and eased the pressure on them to scale back their lending and investment activities.

As a direct result of Treasury's actions through TARP, all participating financial institutions in the CPP have stronger capital positions, and with higher capital levels and restored confidence, banks can continue to play their role as financial lenders in our communities. While difficult to achieve during times like this, this lending is essential to economic recovery.

In the case of the SSFI program, Treasury did not provide funds to a financial institution directly. The $40 billion in Treasury funds was paid directly to the FRBNY to restructure AIG's balance sheet. AIG did not receive those funds. The FRBNY credit facility has helped minimize the disorderly collateral effects on healthy banks, which were counterparties that bought insurance from AIG. Treasury's investment in AIG was necessary to preserve stability in the financial system and to give AIG time to sell assets in an orderly manner to pay back taxpayers.

**Question 5: Is the public receiving a fair deal?**

**Answer:**
Yes. The American people have benefited from the financial rescue package. The financial crisis, and the ensuing economic downturn, would have been far worse without this legislation and our implementation of it. In addition, Treasury has designed its programs, consistent with EESA, to protect the taxpayer and to provide positive return on investments to the maximum extent possible. For example, under the CPP, Treasury will purchase up to $250 billion of senior preferred shares on standardized terms, including a 5 percent dividend for 5 years, which then increases to 9 percent. The government will not only own shares which we expect to yield a reasonable return, but will also receive warrants for common shares in participating institutions. These warrants allow the taxpayer to benefit from any appreciation in the market value of the institution.

When measured on an accrual basis, the value of the preferred stock is at or near par. Furthermore, Treasury has already started receiving required dividend payments. On a mark-to-market basis, the value of some preferred stock may be judged lower when compared to the date of purchase as equity markets have experienced pressure since the program began. In addition to preferred stock, Treasury also received warrants in the institutions it has invested in to provide further value and protection to taxpayers (other than community development organizations which are exempt from warrant requirements). These warrants also have positive value.

Treasury is investing in banks of all sizes around the country to help stabilize the financial system and get credit flowing to our communities. Treasury is not making these investments for short-term gains – we are not day traders. Over time, Treasury believes the taxpayers will be protected by ensuring the stability of the financial system and by earning a return on these investments when they are eventually liquidated.

**Question 6: What is Treasury doing to help the American family?**

**Answer:**
Every aspect of the implementation of the financial rescue package has a single purpose – to stabilize the financial system so it can support the financing needs of the American people, as consumers and as owners and employees of businesses. American families rely on the services provided by a wide array of sound financial institutions and financial markets, such as savings and investment for retirement (e.g., 401k accounts), and access to affordable credit for education, business development, and even daily necessities. For example, when financial institutions fail and when various credit markets don't function, every American household is impacted. A bank failure can suspend or end access to basic financial services in a community, and create

enormous anxiety among individuals. As the commercial paper market came under pressure, small and large businesses had difficulty raising money to meet basic needs such as making payroll or purchasing inventory. Consumer credit relies on the securitization market, which froze this year, increasing the costs of credit cards, car loans, and student loans.

All of the steps that Treasury has taken, alone and in coordination with the regulators, are benefiting Americans because they have prevented a further deterioration of the financial system. The problems facing the financial sectors here and abroad arose over a number of years and it will take time for the restoration of normal financial markets. There is no single action the federal government can take to end the financial market turmoil and the economic downturn, but Treasury is confident that we are pursuing the right strategy to stabilize the financial system and support the flow of credit to our economy. The TARP is just one of many policy measures that Treasury has taken to restore the liquidity and capital necessary to support economic growth, protect the savings of millions of individuals and restore the flow of credit to consumers and businesses. In addition, the measures we are taking are allowing the process of financial intermediation to continue- which means that banks and financial institutions can play their vital role in the economy, including providing savings, retirement and lending services. Some of the specific programs we have established to directly help American families are:

- **Term Asset Backed Securities Lending Facility:** Consumer credit is critical for many households as they consider purchasing a car, new appliances, or other big ticket items. Like other forms of credit, the availability of affordable consumer credit depends on ready access to a liquid and affordable secondary market – in this case, the asset backed credit market. Recent credit market stresses essentially brought this market to a halt in October 2008. As a result, millions of Americans cannot find affordable financing for their basic credit needs. And credit card rates are climbing, making it more expensive for families to finance everyday purchases. The Federal Reserve and the Treasury announced an aggressive program to support the normalization of credit markets and the availability of affordable consumer credit to support economic recovery. Treasury will invest $20 billion in a Federal Reserve facility that will provide liquidity to issuers of consumer asset backed paper, enabling a broad range of institutions to step up their lending, and enabling borrowers to have access to lower-cost consumer finance (auto loans, credit cards, student loans) and small business loans. The facility may be expanded over time and eligible asset classes may be expanded later to include other assets, such as commercial mortgage-backed securities, non-agency residential mortgage-backed securities or other asset classes.

- **Guarantee for Money Market Mutual Funds:** In September 2008, after a money market mutual fund "broke the buck" for only the second time in history, Treasury established a temporary Guarantee Program for Money Market Mutual Funds. The program will help protect the savings and pensions of individuals, as well as institutional investors.

- **Fannie Mae and Freddie Mac:** The housing correction has been at the root of the crisis. One of the most important things Treasury can do to mitigate foreclosures and progress through the housing correction is to reduce the cost of mortgage finance, so more families can afford to buy a home, and so homeowners can refinance into more affordable mortgages. Treasury took strong actions in 2008 to stabilize and strengthen Fannie Mae and Freddie Mac, and prevent the collapse of two institutions with $5.4 trillion in debt and mortgage-backed securities held by investors and financial institutions throughout the United States and the world. The systemic importance of these two enterprises, and the systemic impact of a collapse of either, cannot be overstated. Treasury's efforts to stabilize them by effectively guaranteeing their debt has increased the flow of mortgage credit and insulated mortgage rates from the rapid increases and fluctuations in the cost of other credit. Recently, the Federal Reserve announced that it will purchase $100 billion in GSE debt and half a trillion dollars in GSE mortgage backed securities, which should have a strongly positive impact on the cost of mortgage finance. Treasury continues to look for additional ways to make mortgage credit more affordable, which will stimulate home purchases, help to stabilize prices and end this housing correction.

- **HOPE NOW:** October 2007, Treasury helped establish the HOPE NOW Alliance, a coalition of mortgage servicers, investors and counselors, to help struggling homeowners avoid preventable foreclosures. HOPE NOW estimates that roughly 2.9 million homeowners have been helped by the industry since July 2007; the industry is now helping more than 200,000 homeowners a month avoid foreclosure. In addition, Treasury worked with HOPE NOW and the ASF to develop a fast-track loan modification program to modify loans of subprime ARM borrowers facing unaffordable rate resets.

- **Streamlined Loan Modification Program:** On November 11, 2008, Treasury joined with the FHFA, the GSEs, and HOPE NOW to announce a major streamlined loan modification program to move struggling homeowners into affordable mortgages. The program, implemented on December 15, creates sustainable monthly mortgage payments by targeting a benchmark ratio of housing payments to monthly gross household income (38%). Additionally, on November 20, 2008, Fannie Mae and Freddie Mac announced that they would suspend foreclosure sales and cease evictions of owner-occupied homes to allow time for implementation of the modification program.

**Question 7**: **Is Treasury imposing reforms on financial institutions that are taking taxpayer money?**

**Answer:**
The CPP is a voluntary program for viable institutions. The program was designed to be attractive to financial institutions of all sizes as a mechanism to increase capital in the financial system while also protecting the taxpayer. Treasury established strict executive compensation requirements on all participating institutions, as per the requirements set out in the EESA. Treasury barred any increase in dividends for 3 years and restricted share repurchases. Increasing dividends or buying back shares would undermine our policy objective by taking capital out of the financial system. In addition, Treasury is taking warrants in participating institutions so that taxpayers benefit from any appreciation in the value of these firms' stock.

Under the Systemically Significant Failing Institution program, additional terms and conditions were established for AIG. As a condition of extending an $85 billion line of credit to AIG, the Fed required a change in management at AIG. Also as a condition for Treasury assistance under TARP, AIG must meet stringent executive compensation, corporate expenses and lobbying restrictions.

Treasury is committed to rigorous oversight of the restrictions pertaining to executive compensation and is continuing to develop a comprehensive compliance program to ensure that institutions adhere to executive compensation provisions.

**Question 8: How is Treasury deciding which institutions receive the money?**

**Answer:**
All information about the terms and conditions of the CPP, including the formal application process and forms, is publically available on the Treasury website, as well as on the websites of all the primary federal regulators.

- *Institutions:* The Capital Purchase Program is available to a broad array of private and publically held- financial institutions of all sizes- including qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies. The program is designed for healthy banks – banks that are considered viable without government investment. It is designed to have attractive terms to encourage healthy banks to participate; they are best positioned to increase the flow of credit in their communities.

- *Terms:* The terms for this program are the same for all institutions. Treasury issued a term sheet for publically held banks and followed with term sheet for private depositories. The minimum subscription amount available to a participating institution is 1 percent of risk-weighted assets. The maximum subscription amount in this program is the lesser of $25 billion or 3 percent of risk-weighted assets. Treasury also created a standard investment agreement for all banks, regardless of size.

- *Application Process:* There is one common application form that all qualified and interested financial institutions used to submit to their primary regulator – the Federal Reserve, the FDIC, the OCC or the OTS. This common application form is available on the websites of all the regulatory agencies.

- *Evaluation Process*: Treasury worked closely with the banking regulators to establish a standardized evaluation process; this means that all regulators use the same standards to review all applications to ensure consistency. Once a Federal regulator has reviewed an application, it will take one of the following three actions:
  1. For applications the regulator does not recommend, it may encourage the institution to withdraw the application.
  2. For applications the regulator strongly believes should be included in the program, it directly sends the application and its recommendation to the TARP Investment Committee at the Treasury Department.

3. For cases that are less clear, the regulator will forward the application to a Regulatory Council, made up of senior representatives of the four banking regulators for a joint review and recommendation. Treasury is an observer on the Council. The Regulatory Council will make a joint recommendation of either withdrawal or approval.

The Treasury TARP Investment Committee reviews all recommendations from the regulators and recommendations for CPP investment are made based on all of the information received from the above process. The Investment Committee gives considerable weight to the recommendations of the banking regulators. In some cases, the Committee will send the application back to the primary regulator for additional information, or even remand it to the Regulatory Council for further review. At the end of the evaluation process, Treasury notifies all approved institutions.

Institutions then have 30 days to complete the required documents before Treasury funds the transaction. All completed transactions will be publicly announced within 2 business days of execution, as required by the law. Treasury will not, however, announce any applications that are withdrawn or denied.

Treasury's investment committee includes senior officials on financial markets, economic policy, financial institutions, and financial stability, as well as the Chief Investment Officer for the TARP. For SSFI and other programs, Treasury makes the decision on a case-by-case basis.

The goal of TARP is to stabilize the financial system and restore confidence in and of financial institutions, enabling credit to flow to consumers and businesses. In March of 2008, Treasury published an extensive Blueprint for a Modernized Regulatory Structure that proposes a framework and many specific recommendations for reforming our financial regulatory system. Our current system is a patchwork quilt that developed over many decades and is not optimal for our complex financial system today. Treasury is using TARP to stabilize the financial system today, while regulatory modernization will likely take several years to complete.

**Question 9: What is the scope of Treasury's statutory authority?**

**Answer:**
The Emergency Economic Stabilization Act of 2008 ("EESA") was enacted by Congress and signed by the President with the stated purposes *"(1) to immediately provide authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States; and (2) to ensure that such authority and such facilities are used in a manner that (A) protects home values, college funds, retirement accounts, and life savings: (B) preserves homeownership and promotes jobs and economic growth; (C) maximizes overall returns to the taxpayers of the United States; and, (D) provides public accountability for the exercise of such authority."*[1] In order to achieve these purposes, Congress provided broad authority to the Secretary of the Treasury to establish the Troubled Asset Relief Program to purchase, and to make and fund commitments to purchase, troubled assets from any financial

[1] Emergency Economic Stabilization Act of 2008 ("EESA"), Sec. 2.

institution, on terms and conditions determined by the Secretary in accordance with EESA and applicable policies and procedures.

Recognizing the severity of the economic challenges facing the U.S. financial system, Congress incorporated a broad definition of financial institutions which covers any institution established and regulated in the United States or its territories and which has significant operations in the Unites States; the definition of financial institutions includes, but by its express terms is not limited to, banks, savings associations, credit unions, security broker or dealers and insurance companies.[2] The definition of "troubled asset" provides authority to the Secretary, in consultation with the Chairman of the Board of Governors of the Federal Reserve System, to define a "troubled asset" as any financial instrument the purchase of which is necessary to promote financial market stability."[3]

In exercising this authority, Treasury is limited by a series of requirements and directions set out in EESA. These requirements, which are found in a variety of sections of EESA including sections 101, 103, 104, 105, 107, 108, 109, 110, 111, 113, 115, 121, and 125, encompass, among other things, requirements related to transactions, conflicts of interest, executive compensation, maximizing taxpayers returns, reporting, oversight, and coordination.

Treasury is working on developing an insurance program under section 102. Treasury will submit a report on Dec. 31, 2008 regarding the status of that program.

**Question 10: Is Treasury looking ahead?**

**Answer:**
Yes. Treasury is actively engaged in developing additional programs to strengthen our financial system so that credit flows to our communities. Treasury believes that the new authorities Congress provided in October dramatically expanded the tools available to address the needs of our system. We have made significant progress, but there is no single action the federal government can take to end the financial market turmoil and the economic downturn. We are confident that we are pursuing the right strategy to stabilize the financial system and support the flow of credit to our economy.

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[2] EESA Sec. 3(5).
[3] EESA Sec. 3(9).

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

December 30, 2008

Elizabeth Warren
Chairperson
Congressional Oversight Panel
North Capital Street, NW
Room C-320 and C-617; mailstop BOC
Washington, DC 20401

Dear Professor Warren:

The Treasury Department has received your letter on behalf of the Congressional Oversight Panel, dated December 17, 2008, as well as the First Report of the Congressional Oversight Panel, dated December 10, 2008.

Please find attached the Treasury Department's response to the 10 questions posed in the aforementioned report.

The Treasury Department looks forward to continuing to work with the Congressional Oversight Panel.

Sincerely,

Neel Kashkari
Interim Assistant Secretary for
Financial Stability

<u>Attached</u>
Treasury Department Reponses to the Questions of the First Report of the Congressional Oversight Panel for Economic Stabilization

cc: Rep. Jeb Hensarling
Richard H. Neiman
Damon A. Silvers
Sen. John E. Sununu

## Treasury Releases Responses to Congressional Oversight Panel

12/31/2008

*To view or print the PDF content on this page, download the free Adobe® Acrobat® Reader®.*

HP-1336

**Washington, DC –** ***The Treasury Department today released responses to questions posed in the Congressional Oversight Panel's first report on implementation of the Emergency Economic Stabilization Act.***

The Treasury Department today released responses to questions posed in the Congressional Oversight Panel's first report on implementation of the Emergency Economic Stabilization Act.

**REPORTS**

- Responses