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THE ANNUAL TESTIMONY OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE INTERNATIONAL FINANCE SYSTEM

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

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CONTENTS

	Page
Hearing held on:	
December 12, 2013	1
Appendix:	
December 12, 2013	63

WITNESSES

THURSDAY, DECEMBER 12, 2013

Lew, Hon. Jacob J., Secretary, U.S. Department of the Treasury	7

APPENDIX

Prepared statements:	
Green, Hon. Al	64
Lew, Hon. Jacob J.	65

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Bachus, Hon. Spencer:	
Insert from the Dodd-Frank Act Conference Committee	70
McHenry, Hon. Patrick:	
Letter to Treasury Secretary Lew from Representative Garrett, dated June 7, 2013	78
Response letter to Representative Garrett from Treasury Assistant Secretary for Legislative Affairs Alastair M. Fitzpayne, dated July 12, 2013	79
Letter to Treasury Secretary Lew from Representative McHenry, dated June 7, 2013	81
Response letter to Representative McHenry from Treasury Assistant Secretary for Legislative Affairs Alastair M. Fitzpayne, dated July 26, 2013	83
Response letter from Representative McHenry to Treasury's July 26, 2013, letter, dated August 22, 2013	85
Letter to Federal Reserve Bank of New York President William C. Dudley from Chairman Hensarling, dated November 6, 2013	86
Letter to Treasury Secretary Lew from Chairman Hensarling and Representative McHenry, dated December 6, 2013	89
Peters, Hon. Gary:	
Written statement of the American Automotive Policy Council (AAPC), the Mexican Automobile Industry Association (AMIA), and the Canadian Vehicle Manufacturers' Association (CVMA)	92
Proposed Language to Address Currency Manipulation in the TPP	96
Lew, Hon. Jacob J.:	
Written responses to questions for the record submitted by Representative Duffy	97
Written responses to questions for the record submitted by Representative Fincher	101
Written responses to questions for the record submitted by Representative Himes	105
Written responses to questions for the record submitted by Representative Hultgren	106
Written responses to questions for the record submitted by Representative Luetkemeyer	107

Page

Lew, Hon. Jacob J.—Continued
Written responses to questions for the record submitted by Representative Moore 109
Written responses to questions for the record submitted by Representative Ross 111
Written responses to questions for the record submitted by Representative Rothfus 113
Written responses to questions for the record submitted by Representative Sinema 115
Written responses to questions for the record submitted by Representative Wagner 117

THE ANNUAL TESTIMONY OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE INTERNATIONAL FINANCE SYSTEM

Thursday, December 12, 2013

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 9:35 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Bachus, Royce, Miller, Capito, Garrett, Neugebauer, McHenry, Campbell, Bachmann, Pearce, Posey, Fitzpatrick, Westmoreland, Luetkemeyer, Huizenga, Duffy, Hurt, Grimm, Stivers, Fincher, Stutzman, Mulvaney, Hultgren, Ross, Pittenger, Wagner, Barr, Cotton, Rothfus; Waters, Maloney, Sherman, Meeks, Capuano, Hinojosa, Clay, Lynch, Green, Cleaver, Perlmutter, Himes, Peters, Carney, Sewell, Foster, Kildee, Murphy, Delaney, Beatty, and Heck.

Chairman HENSARLING. The committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's statutorily required hearing is for the purpose of receiving the testimony of the Secretary of the Treasury on the state of the international finance system.

Before we begin, I would like to make a few preliminary comments. I want to thank the Members and staff for their flexibility in scheduling. Due to the passing of the late Nelson Mandela, in order to accommodate a number of Members and the Secretary for both Mr. Mandela's funeral and memorial services, we moved this hearing to this morning.

So, as many Members know, today the committee will have a double feature. We will see the rest of you at 2:00, as well, for our monetary policy hearing, so Members will have an opportunity for lots of quality bonding time today. I wish to also announce ahead of time that at 11 a.m., I will declare a short recess of the committee.

I now recognize myself for 5 minutes to give an opening statement.

The committee meets today, again, to receive the annual testimony of the Secretary of the Treasury on reforming both the International Monetary Fund and the broader international financial system.

There are important questions that must be raised. Undoubtedly, hardworking American taxpayers suffer from bailout fatigue, having been forced now to pay for the bailouts of AIG, Fannie Mae, Freddie Mac, Chrysler, G.M., banks big and banks small, and most recently, the Federal Housing Administration.

Many Americans question the wisdom of supporting the IMF and other multilateral financial institutions that take their hard-earned dollars and use them to bail out other countries. Americans do not want to be part of a bailout nation any more than they wish to be part of a bailout planet.

An important question at the outset is whether the Administration's credibility has been compromised and thus compromised our ability to reform multilateral financial institutions. An American President's most awe-inspiring power may not be the ability to launch a drone strike, but that when he speaks, the world listens, and the world listens because the President's words are backed by the moral authority of the United States of America.

Lately, that moral authority of our Nation has been under question by the words of our President. Whether it is an erased red line in Syria, a deal with Iran that dismantles numerous sanctions but does not end the terrorist regime's march towards a nuclear bomb, or revelations about spying on our allies, we now live in a world where too many of our friends no longer trust us and too many of our adversaries no longer fear us.

The collapse in confidence and credibility is not confined to foreign lands. Here at home, millions of Americans took President Obama at his word when he promised no fewer than 36 times that they could keep their health insurance if they liked it. They now know better.

Next, although the last couple of months have brought some welcome news on the jobs front, Americans continue to suffer through the slowest, weakest recovery in generations. Thus, regardless of the wisdom, many Americans now rightfully question our ability to continue supporting multilateral financial institutions like the IMF.

When President Obama took office nearly 5 years ago, he was able to pass every major piece of legislation he wanted—the stimulus, Obamacare, the Dodd-Frank Act, the largest tax increase in our Nation's history—and the results speak for themselves.

Poverty is up. Income inequality is up. The debt has never been higher. Small businesses are drowning in the greatest sea of red tape in our Nation's history. And the number of Americans in the labor force is at its lowest level in 30 years.

Five years into these policies, hardship and anxiety abound. Just listen to what I hear from my constituents in the Fifth Congressional District of Texas, people like Nancy from Dallas, who wrote to tell me, "I have been looking for a job for close to 2 years. God has blessed me with many jobs on and off, but that does not pay the bills."

From Marsha in Reklaw, Texas, who said, "I have spent more time unemployed in the last 4 years than I have employed."

John from Alba, in my district, writes that he has had to close his business and says, "I am 70 years old, and I have tried to find

a job, but no one wants to hire a 70-year-old when so many younger people are out of work."

These people deserve better than the results of this Administration's economic policies. Which brings us back to the central truth that you cannot strengthen and reform the global economy without first strengthening and reforming the American economy. That means respect for the rule of law, both fundamental tax reform and tax relief, freezing Federal red tape that is hindering job creation, and giving one-sixth of the economy, that is health care, back to the American people.

And it also means ceasing to spend money we do not have. The single greatest threat to a stronger economy is our growing national debt. Witness the national debt clock to my left and right. This is a debt that has mushroomed under this President. Never in our history have so few indebted so many so quickly with such dangerous implications.

We know our debt is unconscionable. It is unsustainable. And frankly, I believe it to be immoral. Yet, this President dismisses the threat at every opportunity and, I fear, leads a parade of Washington debt-deniers.

Under the current policies we have, it is not a question of whether a debt crisis will come, it is a matter of when. For the sake of our economy, for the sake of our children, for the sake of our freedom, I would call upon the President to work with Congress now to avoid this catastrophe. Our Nation deserves better.

At this time, I yield 6 minutes to the ranking member for her opening statement.

Ms. WATERS. I want to thank Chairman Hensarling for holding this hearing. And I am delighted to welcome you, Secretary Lew, before our committee today to testify on the state of the international financial system.

I would like to discuss what I believe to be one of the biggest social, economic, and political challenges we face today, both domestically and internationally. And that is the problem of growing inequality. Over the past 30 years, income inequality in the United States has been steadily increasing. This was the case even during periods of growth. Before the financial crisis, levels of inequality in the United States reached peaks not seen since the late 1920s.

While other advanced and emerging market economies have also experienced rising income inequality, the most shocking shortcomings are right here in the United States, which has the highest level of inequality of any advanced industrial nation. In fact, today 20 percent of the income in our country goes to the top 1 percent of Americans.

If you look at inequality of wealth, it is even worse. The top 1 percent holds about 40 percent of the country's wealth. The gap between the rich and the poor in America has become a chasm. Moreover, the gains from growth during the recent recovery have accrued overwhelmingly to the wealthiest people in society. Almost 95 percent of the income gains since the recovery began have been captured by the top 1 percent. This means that the most unequal advanced industrial economy in the world is becoming even more so.

I recognize that in a capitalist system, some degree of inequality is necessary for the function of a market economy since it creates incentives to work hard and take risk. But left entirely on its own, the market system will produce more inequality than is economically necessary. And here in our country, we have much more inequality than is necessary for efficiency. I believe this is a moral problem from the standpoint of social equity.

But excessive inequality not only undermines social and political cohesion, it has also recently been shown to have negative effects on growth and stability as well. Recent research at the IMF has shown that excessive inequality slows growth because depressed earnings lead to weaker demand and lower consumption. Reducing inequality is increasingly understood to contribute to economic growth.

Inequality is also a political problem. We now have an increasing degree of resistance on the part of many Americans to new trade agreements because they see themselves as victims of globalization, rather than as participants in its benefits. I believe our international economic policy has in fact been too one-sided, too focused on elevating the interests and mobility of capital over all other considerations.

This was based on the misguided belief that unfettered markets would not only create wealth and stability, but would also trickle benefits down to others in society. But this isn't what has happened. In fact, one of the most important lessons we have learned from the recent financial crisis is that markets must be deeply embedded in systems of governance. The idea that markets are efficient and self-correcting has received a mortal blow.

I believe in capitalism, and I believe that the markets are the main engines of wealth creation in our country and elsewhere, but in order to be truly supportive of the free market, I believe you must also be supportive of government. This is because we need to have an appropriate set of public policies in place to reign in the excesses of the market, to help maintain stability, and to ensure that the benefits of capitalism and growth are broadly shared.

We need to do a better job of dealing with equity. Questions at home, for example. We should be increasing the minimum wage, extending unemployment insurance, and providing trade adjustment and other assistance for those in the United States clustered in the low-skilled end, who are disadvantaged by globalization. Until we do that, and people begin to feel secure at home, we will not have the political support we need for more active engagement by the United States with the international economy.

Mr. Chairman, I thank you for holding this hearing today. Some of what I have alluded to in my statement are issues that are being dealt with as we consider the budget today. And these issues that I have alluded to include, of course, the unemployment benefits that I understand may not be in the budget agreement.

Also, I believe that providing trade adjustment and other assistance for those that I have pointed to, who end up clustered in the low-skilled end, are issues that we have not sufficiently dealt with. And I am looking forward to engaging you and others on these issues so that we can get at how we will deal with this income inequality that is a central theme of my testimony today.

I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from California, Mr. Campbell, the chairman of our Monetary Policy and Trade Subcommittee, for 3 minutes.

Mr. CAMPBELL. Thank you, Mr. Chairman.

And welcome, Secretary Lew.

Your testimony today is required annually by the International Financial Institutions Act. And there is no shortage of international financial issues that we can discuss. I will let my opening statement stand for itself. But one of the things that you, I believe, will be discussing in your statement that we need to talk about is the IMF. And as a reminder, in 2009 Congress authorized a $100 billion commitment to the IMF in an account called, "New Arrangements to Borrow."

Now, there is discussion of transferring $63 billion of that into a permanent paid-in-capital. And there is a lot of concern about this, Secretary Lew.

The first thing is, we don't believe this is just a bookkeeping entry. This puts the $63 billion significantly at risk, whereas currently, it is not.

Second, in this era of budget cuts, there is a lot of concern up here of whether, when we are cutting a lot of domestic issues, as the ranking member just mentioned, is this the time when we should be increasing funding to first world countries around the world? And there is some concern of whether a lot of this money could go to European countries. And, yes, they have some crises and some problems, but can't they deal with those within Europe without the U.S. taxpayer being involved?

There is concern about moral hazard. Would the IMF, by making more loans to countries that are deeply in debt, be encouraging that kind of indebtedness, rather than trying to encourage these countries to get out of their debt, and not to spend so much and borrow so much?

And then, finally, there are reforms, we understand, involved with the IMF in this additional contribution, but a lot of concern about whether those reforms are really enough, whether they go far enough to change the governance of the IMF as it should be.

Mr. Secretary, if the Administration, if you and the President are committed to and want this $63 billion transfer, we need a couple of things. We need three things, actually. We need, first of all, you to make a formal request, which has not yet been received by this committee, for this money, for this transfer. Second, we need you to address these issues.

And, third, we need you, and we need the President, if this is a priority, for $63 billion of U.S. taxpayer money, we need you, Mr. Secretary, and we need the President to vocally articulate why this is a priority in this era of limited budgets. And why these concerns that people on this committee have are not well-founded.

Thank you. I look forward to your testimony.

I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Illinois, Mr. Foster, for 1 minute, as well.

Mr. FOSTER. Thank you, Mr. Chairman.

Thank you, Secretary Lew, for joining us today.

Mr. Secretary when you left your first tour of duty in the White House in 2001, we were paying down our debt to the tune of a couple hundred billion dollars a year, and were on track to pay our debt down to zero by roughly 2008.

In the next 8 years, we saw the surplus we were running reversed and the structural deficit exceeding $1 trillion a year in the next 8 years.

We are also sitting on 8 straight years of uninterrupted job growth, roughly 22 million jobs in 8 years. And we saw in the 8 years following your first departure, zero net job growth, 20 million people entered the job market with zero jobs produced for them. And we have made significant progress since entering the worst recession since the Great Depression.

We have seen 45 straight months of consecutive private sector job growth, and there is much work left to be done. And I thank you for appearing today.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Washington, Mr. Heck, for 1 minute.

Mr. HECK. Thank you, Mr. Chairman. Secretary Lew, thank you for your service to the country, and for appearing at this hearing today.

But the hearing I am most interested in is actually taking place at your Treasury Department as we speak. The Bank Secrecy Act Advisory Group is meeting right now and it is confronting the question of how to allow legal marijuana businesses to access the banking system.

As you know, the voters in my State of Washington, and in Colorado, last year, approved initiatives to make marijuana legal for adults. These policies go into effect in the new year but we need cooperation from the Federal Government to make it work.

If Federal banking regulations continue to prohibit marijuana businesses from using the banking system, these all-cash businesses will be a magnet for robberies and organized crime.

You have the power to prevent that, Secretary Lew. I hope the advisory group agrees on a new workable guidance today, and I hope you swiftly approve it.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, for 30 seconds.

Mrs. MALONEY. It is my pleasure to welcome Secretary Lew, who is from the great State of New York, and New Yorkers are very proud of your public service.

My question concerns GSE reform. You mentioned in your testimony our growing economy and that your main job is to create jobs. Many economists have testified that one of the most important things we could do is bring certainty to housing finance. I hope you meant your comment on the efforts of the Administration to support housing finance reform and certainty in that area.

Welcome, and I look forward to your testimony.

Chairman HENSARLING. The time of the gentlelady has expired.

Today, we welcome the testimony of the Honorable, Jacob J. Lew, the Secretary of the Treasury of the United States. Secretary Lew appeared before our committee earlier this year, so I believe he needs no further introduction.

Without objection, Secretary Lew's written statement will be made a part of the record.

Again, Mr. Secretary, welcome to the committee. You are now recognized for your oral testimony.

STATEMENT OF THE HONORABLE JACOB J. LEW, SECRETARY, U.S. DEPARTMENT OF THE TREASURY

Secretary LEW. Thank you, Mr. Chairman, Ranking Member Waters, and members of the committee. I appreciate the opportunity to testify today. And thank you for the flexibility and courtesy in rescheduling so that a number of us could attend the memorial services for Nelson Mandela.

There are signs that the economic conditions are improving in advanced countries, led by the United States. Despite political headwinds, our economy has been steadily growing.

Over the past 45 months, our businesses have created more than 8 million jobs. While we are moving in the right direction, we have more to do to create jobs, accelerate growth, and put our economy on a firmer foundation.

As we know, economic progress at home depends, in part, on the global economy. And the global economy continues to face many challenges. A long recession in the euro area seems to be ending, while significant progress has been made in achieving financial stability. Europe is now in a position to place greater priority on boosting demand and reducing unemployment which remains very high in many countries.

In Japan, the authorities have taken forceful action to begin ending deflation. But to achieve sustained success, Japan needs to undertake structural reforms to strengthen domestic demand growth.

Recently, some emerging markets have slowed as post-crisis stimulus wanes. Emerging markets need to make reforms that increase their resilience and address structural constraints to growth. China's new leadership recently announced bold commitments to reform. The pace and character of these reforms will shape China's economic transition toward domestic consumption-led growth and away from resource-intensive export growth.

An important part of my job is to work to create the most favorable external environment for U.S. jobs and businesses. The international financial institutions, the International Monetary Fund and multilateral development banks, are indispensable in this effort and we must preserve our leadership in these institutions.

That is why it is so important that Congress act to approve IMF quota and governance reform. At the G-20 Seoul summit in 2010, we secured reforms that preserved the U.S. board seat and veto without increasing the U.S. financial commitment to the IMF. Right now, U.S. approval is the only remaining step needed for these important reforms to go into effect. If we fail to act, we risk a loss of U.S. influence at the IMF.

To implement the IMF quota reforms, the Administration has provided draft legislation to reduce U.S. participation in the new

arrangements to borrow and simultaneously increased the size of the U.S. quota in the IMF by an equal amount. Our investment in the IMF is safe and sound. When the IMF lends, it does so subject to appropriate conditions and with safeguards to assure it is repaid. And its repayment record is outstanding.

Investments in the multilateral development banks also provide substantial returns. These institutions leverage our limited contributions and multiply our impact by attracting contributions from other nations. They also effectively promote our national security and economic priorities, including opening up markets and lowering barriers for U.S. businesses abroad.

It is important to note that the United States will be making new commitments to the International Development Association of the World Bank and the African Development Fund this year. These are the two largest sources of finance for the world's poorest countries and their impact is enormous. As we maintain our commitments to the international financial institutions, it is crucial that we continue to strengthen the world's financial system.

The United States has led the global effort on international regulatory reform with many of the core reforms of Dodd-Frank largely completed at home. In fact, on Tuesday, the Volcker Rule, a centerpiece of these reforms, was finalized. This rule is both strong and comprehensive. It will change behavior and practice across our financial system to safeguard taxpayers from risks created by banks' proprietary trading and investments in hedge funds and private equity funds.

It also fulfills the President's vision and the statute's intent by setting tough, but workable restrictions, while continuing to allow banks to perform essential market functions.

As we move forward with our international agenda in 2014, we will work with the G-20 and through the Financial Stability Board to promote consistent implementation of high-quality regulations. We will focus on advancing vigorous implementation of Basel III, ensuring risk-weighted assets are assessed consistently across borders, and that Basel III's high-quality capital standard is met.

We will also focus on strengthening arrangements for cross-border resolution of large complex financial institutions, promote swift implementation of convergent requirements for the over-the-counter derivatives markets, and develop a road map to address risks posed by shadow banking.

We also have been at the forefront of efforts to use financial measures to advance key national security and foreign policy goals. Nowhere have our efforts been more concentrated than in using sanctions to advance our policy and prevent Iran from obtaining a nuclear weapon.

Together with our international partners, and in close coordination with Congress, we have built the most effective sanctions regime in history. And even as we explore the possibility of a long-term agreement with Iran that would provide verifiable assurance that Iran cannot obtain a nuclear weapon, we will continue to enforce our sanctions vigorously, as our action this morning imposing sanctions on more than a dozen entities demonstrates.

Chairman Hensarling, Ranking Member Waters, and members of the committee, across the global landscape, there is much work

ahead. And with your ongoing support, I am confident we will continue to protect America's vital interests abroad and at home.

Thank you, and I look forward to your questions.

[The prepared statement of Secretary Lew can be found on page 65 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

The Chair now yields himself 5 minutes for the purpose of questioning.

Mr. Secretary, as OMB Director in February of 2011 you were quoted as saying, "It is an accurate statement that our current spending will not be increasing the debt. We have stopped spending money we don't have."

You said that while you were introducing the President's Fiscal Year 2012 budget, which according to CBO added $12.5 trillion to the gross national debt over a 10-year budget window.

And under your watch as OMB Director, $1.4 trillion was added to the gross national debt.

So I am trying to get some insight into the Administration's view of our national debt. Do you still stand by those comments? Is there some context here for those comments?

Secretary LEW. Mr. Chairman, at the time I was trying to explain the difference between a primary balance, a primary surplus, and spending, new spending, new commitments that are being made.

The definition of primary balance is when the only deficits are related to paying interest on the national debt. And other than that, we are covering all of our expenses—

Chairman HENSARLING. Let me move on—

Secretary LEW. —the primary balance in I believe 2 years in our budget.

Chairman HENSARLING. Let me then move on to a statement the President made fairly recently, about 6 weeks ago: "Don't pretend as if America is going bankrupt at a time when deficits have been cut in half."

Isn't it true, Mr. Secretary, that these deficits have only been cut relative to the largest deficits in our Nation's history, save World War II?

Secretary LEW. Mr. Chairman, I think if you look at the reduction in the deficit since 2009, we have seen the most rapid reduction in the deficit as a percentage of GDP—

Chairman HENSARLING. But, again, Mr. Secretary, weren't these the largest deficits in our Nation's history save World War II?

Secretary LEW. We did come in at a time when we inherited a very large deficit. We were in a financial crisis and an economic crisis spiraling out of control.

Chairman HENSARLING. Mr. Secretary, if you are unaware, I would have your aides look into it. I think you will find that probably is true.

Also, CBO recently released their latest long-term outlook. Have you had a chance to look at it? It came out about 6 weeks ago.

Secretary LEW. I have—I am aware of it, yes.

Chairman HENSARLING. Under that outlook, under either current law or current policy baselines, deficits come down temporarily until 2015 and then rise thereafter with no end in sight.

Isn't that true, Mr. Secretary?

Secretary LEW. Mr. Chairman, I came here prepared to discuss a wide range of issues. I have not reviewed the CBO report in detail. I can speak generally about this issue, and I would be happy to.

Chairman HENSARLING. Isn't it true, then, that the Administration has never submitted a budget that balances in 5 years, 10 years, 50 years, or at any time?

Secretary LEW. Mr. Chairman, the Administration has submitted budgets that took a fiscal situation that was out of control and brought it under control. We have achieved more progress reducing the deficit—

Chairman HENSARLING. But, Mr. Secretary, has the Administration ever submitted a budget that balances over any time span?

Secretary LEW. I don't believe that the measure of an effective budget right now is whether—

Chairman HENSARLING. That is fine, Mr. Secretary. But I get to ask the questions here. So if you don't know or you—

Secretary LEW. No, no, I do know. There is a point when it balances in the far distant future, but it is not in the 10-year window.

Chairman HENSARLING. Not according to the Congressional Budget Office.

Secretary LEW. Well—

Chairman HENSARLING. So, according to whose analysis? Is this Treasury's analysis? OMB's analysis? Whose analysis?

Secretary LEW. Mr. Chairman, I am happy to look at the projections of the budget. I did come to testify on a wide range—

Chairman HENSARLING. Okay, let me, if I could, in the time I have remaining, move on to the debt ceiling.

I think, as you know, just about every major deficit reduction package of the generation has been attached to a debt ceiling, Gramm-Rudman, PAYGO, OBRA, a Budget Enforcement Act, even today's Budget Control Act.

Every President in your lifetime and my lifetime has negotiated on a debt ceiling. I have had our capable staff research the issue. The debt ceiling tends to be the early warning system that spending is out of control.

Yet on September 15th of this year, the President took the unprecedented and radical action of stating, "I will not negotiate on the debt ceiling."

So is it the position of this Administration that if Congress does not functionally repeal the debt ceiling and allow the President to spend what he wishes, that he is threatening default on our sovereign debt?

Secretary LEW. Mr. Chairman, I would disagree with the characterizations of the debt ceiling as an early warning. The debt ceiling is at the very end. All the decisions that Congress makes in the budget, as it is making today, all the decisions Congress makes on entitlement programs and tax policies. That determines the spending—

Chairman HENSARLING. My time is almost up.

Secretary LEW. The debt ceiling is the very end—

Chairman HENSARLING. Are you aware of any other President in our lifetime who has taken the radical position of stating that he will not negotiate deficit reduction on the debt ceiling?

Secretary LEW. Mr. Chairman, I think we learned in 2011, and we learned again just this past October, that treating the debt limit the way Congress did put our economy in grave danger.

Every President in my lifetime has said the same thing. It is imperative to raise the debt ceiling and it is Congress' unique and exclusive responsibility.

Chairman HENSARLING. The time of the chairman has expired.

And I would also say that every President in your lifetime has also negotiated on the debt ceiling.

The Chair recognizes the ranking member for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

I would like to see if I can get a clearer understanding about where we are in relationship to finance discussions and trade talks with Europe.

I sent a letter to, I think you and the President, basically stating my position on whether or not we would be including financial services provisions in a trade agreement, and I indicated that I think it may undermine broader efforts by regulators in the United States and elsewhere in the world to address cross-border oversight.

And I noticed that in a Wall Street Journal report it indicated that U.S. Treasury Secretary Jacob Lew poured cold water on a push by the European Union's top financial markets regulator to include negotiations of a financial services regulation in E.U.–U.S. trade talks.

But then I also note that there is another article that talks about the possibility that we are softening our position. So I would like some clarification from you today about where we are in those discussions.

Secretary LEW. Congresswoman Waters, I think the issues of working on an international basis to make sure that we have a race to the top, to the highest standards possible in terms of financial stability is very important.

We work actively through the G-20 and the Financial Stability Board, the FSB, to try and drive that process.

I am actually of the belief and am proud that the United States is a leader, that we have taken decisive action, the most decisive action of any country in the world after the deep recession and economic crisis of 2008 and 2009.

I have said on many occasions that I do not believe that trade agreements are an appropriate place for us to dilute the impact of the steps that we have taken to safeguard the U.S. economy, and I think that we should make a call to the world community in the appropriate fora, like the G-20 and the FSB to try and drive that race to the top.

I have said that in public. I have said it in private conversations with the Europeans.

Obviously, a trade agreement is very important. I think it would open up opportunities for U.S. economic growth and for European economic growth.

I would point out that Europe is 20 percent of the U.S. export market, so Europe's core economy is important to us, and keeping that line of trade open is important to us.

I look forward to making progress in the trade negotiations, and I look forward to making progress in terms of opening up access to financial markets for even more U.S. competition and more U.S. investment.

Ms. WATERS. I would like to try and understand how much pressure you are receiving to introduce financial regulatory issues into these negotiations.

Secretary LEW. The issue has come up, really, for the entire time that I have been Secretary, since February, March. It has been an issue that Europeans have raised. I have responded, as I just did in response to your question.

And I made some pretty public remarks last week where I called on our international partners to work through the G-20 and the FSB to tighten standards. So I have tried to be very clear on our policy.

Ms. WATERS. Are you—of course you are aware, you understand that efforts are already under way to deal with cross-border financial regulations including the G-20 and the Financial Stability Board.

So our concerns, and some of the criticisms from other lawmakers, are that other Administration trade initiatives would effectively sidetrack domestic regulation in favor of international laws.

And some of our Members are saying they fear that the ambitious Trans-Pacific Partnership could create rules affecting technology development that would supplant U.S. domestic regulation.

Secretary LEW. Congresswoman, on the financial issues, I am quite familiar with it. On the technology issues, that is really an issue that the U.S. Trade Representative would be more appropriate to address.

On the financial issues, I have been clear in every conversation that I have had that we are going to, in the text of agreements, promote opening markets for U.S. access, having standards consistent with our own. I have been very clear that watering down, in any way, U.S. regulatory standards is not appropriate in trade agreements in terms of protecting our financial markets, our financial system, and our economy.

I do think, separately, we have to discuss what it means to harmonize across international boundaries. And I think we have seen very constructive developments, say in the derivatives area, where we took an initial action. The international community responded, and there is now a reconciliation so that we can have the world community reach the U.S. high standard.

And we may sometimes have to go back and make some conforming changes for that to work. But if it is in our high standard, that is a real—

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from California, Mr. Campbell, the chairman of our Monetary Policy and Trade Subcommittee, for 5 minutes.

Mr. CAMPBELL. Thank you Mr. Chairman.

Let me jog back to the IMF for a minute. One thing I know, an e-mail from a staff member with language does not constitute a formal request. If Congress is to consider the IMF money, we need a formal request from you, according to the law on that.

But I don't want to get into too much minutia on that.

But one thing is, what this thing costs. Would you agree that if you move the $63 billion into paying capital, that it is not without risk?

Secretary LEW. Congressman, I think if you look at the history of the IMF, it supports the statement I made that there is very little risk.

Mr. CAMPBELL. Okay. But it is not zero. So—

Secretary LEW. I believe it is awfully close to zero.

Mr. CAMPBELL. But shouldn't we have CBO tell us what they think?

Secretary LEW. CBO has looked at this in the context of appropriations.

If I could go back, Congressman, because I think the question of request is tied to the fact that we have been trying to be flexible in responding to what we have heard from Congress.

In our budget last year, we proposed this as something that will be done as an authorization, as a mandatory provision. We heard back from Congress that there was a preference to deal with it as an appropriations matter. We responded and provided language that would do it as an appropriations matter.

At the time, CBO looked at it—

Mr. CAMPBELL. Okay.

Secretary LEW. —and it did have a modest score.

Mr. CAMPBELL. If I might say that authorizing committees like this don't like things that go directly through appropriations without the people who are actually—

Secretary LEW. We would be happy to do it either way.

Mr. CAMPBELL. —involved in the issue—looking at the issue. So we would certainly, I think, on a bipartisan basis here, prefer it be done that way.

But we think CBO should score this at risk.

Is the President personally supportive of this transfer?

Secretary LEW. Oh yes, the President is very much supportive of it. He has told me it is a very high priority in terms of our place in the world staying at the very strong point that we are at.

I think on the cost side, CBO has scored it, but it is not a enormous score. CBO's score was in the neighborhood of $300 million; it was not in the $63 billion range.

Mr. CAMPBELL. There are different ways CBO scores things, and if they score it on a risk basis—

Secretary LEW. Yes.

Mr. CAMPBELL. We have to look at that.

Let me get into the issue of trade and so forth that we talked about with Europe. Okay, I hear you that you say that you think the G-20 is a better venue for negotiating financial services, let's say, harmonization than with the European trade agreement that is being worked on.

Won't the Europeans make the same arguments at the G-20 that they will here? Why is that any better or any different than trying

to harmonize these financial regulations as best we can through a trade agreement, particularly given how the borders in financial matters have dropped so much?

Secretary LEW. I think if you look at the progress we have made internationally, since 2009, the G-20 and the FSB have been quite effective places to work through very complex, technical financial regulatory matters.

I don't think the trade context is the ideal place for that to be done. The people at the table there are not necessarily the right people, and the mechanisms already exist in the G-20.

And the real point I was making, regardless of where we do it, is the core issue. When we enter into a trade agreement—

Mr. CAMPBELL. Okay, let me just—you had a meeting in Brussels, I think on November 27th—

Secretary LEW. I don't remember the date, but yes, it was in Brussels.

Mr. CAMPBELL. Okay. What was the outcome of that meeting? This was with the Europeans?

Secretary LEW. I think, as I acknowledged in my response to Congresswoman Waters, that I have discussed this a number of times with the Europeans. They do make the argument that it should be in the trade agreement.

We make the argument that it should be in the G-20 and the FSB. But the core issue, and I think, wherever we do it is we can't dilute our protection of the U.S. financial system, the U.S. economy.

That is the core principle that applies wherever we are doing business.

Mr. CAMPBELL. Is it our position that we have the perfect financial regulation, worldwide, and everybody else in the world should copy us? I fail to—

Secretary LEW. No.

Mr. CAMPBELL. —understand why talking with the Europeans about this, understanding better what they want to do, why that is a problem? What is the risk to the U.S. financial system to do that?

Secretary LEW. To be clear, Congressman, not at all. We talk to the Europeans and to our Asian partners in the G-20 and the FSB, we learn from each other, we take best practices from each other. We are very open.

The question is whether it is a question of financial regulation or environmental regulation or labor rules, is a trade agreement the appropriate place to do it?

Normally, in a trade agreement, the pressure is to lower standards on things like that and that is something that we just think is not acceptable.

Mr. CAMPBELL. If I can stop you, because I only have a few seconds left. The chairman and I have written letters—several letters to you about this. We think and urge you to try at the European level, because the purpose of a trade agreement is to facilitate trade that benefits both economies. We can do that in the financial services area, and we should do it.

Secretary LEW. Well—

Mr. CAMPBELL. I yield back.

Secretary LEW. Our core goal is very consistent, we think we can achieve a trade agreement that opens up financial markets for much—even more robust cross-border trade and relations. And that is our goal.

And our issue is not that we don't want to coordinate on financial regulation, we very much do. It is critically important, and I think it is one of the biggest priorities we have.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Missouri, Mr. Clay, the ranking member of our Monetary Policy and Trade Subcommittee, for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman. Secretary Lew, as you know, an earthquake devastated Haiti on January 12, 2010, leaving millions homeless.

In the wake of the disaster, the American people and the global community rallied to provide relief to the Haitian people. As the Center for Economic and Policy Research points out in a recent report, despite billions of dollars pledged to build back Haiti, more than 350,000 Haitians remain internally displaced, and it is unclear what sustainable impact our funds have had.

Secretary, can you give members of this committee a progress report on post-earthquake humanitarian reconstruction and development efforts in Haiti?

Secretary LEW. Congressman, I would have to get back to you on a update. I was deeply involved in putting together the Haitian relief package when I was Deputy Secretary of State. I have not had the opportunity in the last few months to become familiar with the detailed, up-to-date assessment, but I am happy to do so and get back to you.

Mr. CLAY. This is the second time I have inquired about this. One of your Deputy Secretaries was supposed to get back to me a couple of months ago, and I haven't heard anything.

Secretary LEW. I am happy to get—we will get back to you. I was not aware of that.

I think if you look at the relief response in Haiti, we responded quickly with the emergency assistance. We responded generously with economic assistance. I know the question you are asking is on the efficacy of that effort. I share the concern that when we go in, we have to be successful.

And I am happy to go back and look into it and get back to you.

Mr. CLAY. Thank you.

Secretary LEW. I personally was very committed to putting that package together and I would actually very much like to be able to get back to you on that.

Mr. CLAY. I look forward to your response.

And on the euro zone, economic growth is still a continued challenge with the annual GDP growth now forecast at zero—at minus 0.1 percent in the E.U. and minus 0.4 percent in the euro area for 2014.

European Commission President Jose Manuel Barroso, stated that the economic austerity policies in Europe have reached their limits and they should receive minimum political and social support.

He also pointed out that E.U. should focus on growth measures in the shorter term as reforms in the public finances sector should take time to have any effect.

Additionally, a recent report by the IMF states that too much austerity is self-defeating, which means that the continuous fiscal austerity for some countries in the euro zone, especially in the south, leads to an even deeper recession, in most cases deeper than projected.

In this vein, how do you think the United States and, more particularly through its participation in the IMF, could channel its efforts in alleviating the harsh consequences of this continuous crisis that has brought severe economic and social traumas to these countries?

Secretary LEW. Congressman, we have been deeply involved in multilateral and bilateral discussions on the response to Europe's economic challenges. I know in my own conversations with finance ministers around Europe, I have made the case very strongly that Europe needs to worry about growth; that, as it looks at the weakest economies in Europe, it needs to stay focused on the reforms and structural changes.

But as they look at the pace of fiscal consolidation, they also have to look at the enormous unemployment and the economic effect and the social effect that has.

I think we have actually made some progress in these conversations and I don't want to exaggerate at the same time how much progress we have made.

I think you are seeing more flexibility in terms of the timetables for fiscal consolidation. You are seeing recognition that the structural changes are very hard and that, as countries make them, they need to have some breathing room.

But you have also seen sustained pressure to stay on the path. I don't disagree with that general direction because it is not sustainable for Europe's economies or their national finances to be in a place that is unsustainable.

But I think when you are looking at 20 percent or 30-plus percent unemployment rates, that has a very, very serious impact on domestic demand, the potential for economic growth, and ultimately political stability.

So I have had these conversations. I do believe we are making progress. I think that the IMF is sensitive to the trade-off. I think if you look at the G-20 communiques over the last year, they have increasingly moved towards a position that reflects the view I am expressing.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentlelady from West Virginia, Mrs. Capito, chairman of our Financial Institutions and Consumer Credit Subcommittee, for 5 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for joining us today. The Treasury Department recently announced revised guidelines on how the MLBs will be financing coal-fired power plants in emerging markets.

As you can imagine, I represent a State that exports 30 percent of the total coal exports because we can't burn them at home, and

we are having difficulty with the President's war on coal. And now, it seems like it is an international war on coal.

Explain this policy to me.

And are you really in the—as part of your stated goals, fast-growing African countries were supposed to present new opportunities for U.S. businesses.

What kind of energy development is going on if we can't help them with the cheapest, most affordable, and reliable base load energy production that we have around the world?

Secretary LEW. Congresswoman, our policy on coal and on the climate impact is one that I know we have some differences on. But we believe very strongly domestically and internationally that we need to drive towards developing technologies that have a less adverse impact on the climate situation.

So we have taken the view that at home, we need to use fuel more efficiently. We need to develop renewable energy technologies. We very much believe that we have a lot of potential to export technology overseas.

You look at most of the developing countries, in some cases hydroelectric power is an abundant source of power. In many cases, highly distributed renewable energy is a very efficient form of technology.

Mrs. CAPITO. Are you talking about wind and solar?

Secretary LEW. Wind and solar and—

Mrs. CAPITO. And you are aware how much we have to subsidize that here to make it any kind of cost-benefit?

Secretary LEW. The challenge to develop cost-competitive renewable technology is something to which we have dedicated a lot of energy. We believe that we are getting there. And we believe in order to meet our international objectives on climate, it is important that we have a consistent approach domestically and internationally.

Mrs. CAPITO. My concern on the innovation—and I don't disagree on the innovation and the goal, the ultimate goal, to make it cleaner, more efficient and less emissions. I am all for that.

But I feel like, if you are cutting off the emerging markets, which are the fastest growing markets, from development—from being able to finance these kinds of facilities, you are going to stifle innovation in this country, because universities and such aren't going to devote the resources to it when they think they are looking at a dead end here.

And so, not only from the human element of these folks in Africa who can't even access just baseline power generation, I am very concerned.

And another thing I would like to say is I also represent a lot of natural gas interests. We have a glut of natural gas in this country; it is wonderful. It creates jobs, all down the spectrum, and you know this, I am certain, in your position.

But we are now embarking on whether we should be exporting our natural gas. And my question to you would be, is part of this global initiative—natural gas is a carbon fuel. Is that next? Is that the next thing that is not going to have any kind of financing opportunities for the MLBs?

Secretary LEW. We have obviously been very aggressively developing natural gas resources in this country and other less emitting fossil fuel. So we have been encouraging the development.

I think the export question is a different one. The Department of Energy has responsibility for reviewing natural gas export license proposals.

Obviously, it has been a source of enormous strength to our economy, that we have had an energy revolution, where the cost of energy as an input into production has made the United States a much more attractive place to invest. And that is something we are very anxious to continue.

I would defer to the Department of Energy to review these export licenses, and I would be happy to follow up with you on that.

On the question of kind of the need for power in the third world, we totally agree. One of the President's major initiatives is what he calls Power Africa, which is that we need to make sure that the African continent has access to electricity to fuel economic growth.

And we are working side by side in the international community to be very strong partners in that because—

Mrs. CAPITO. And many of these countries that you are working with, Germany, for instance, are building themselves more coal-fired power plants in their own country because they have had to shut down their nuclears because of the potential negatives there.

And so I am just very concerned about this because I think it hurts the American innovator; I think it hurts American jobs and it certainly picks winners and losers in this country.

And unfortunately—I love living in West Virginia, but this Administration has picked us as one of the ones to lose. And I deeply resent that.

Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Texas, Mr. Hinojosa, for 5 minutes.

Mr. HINOJOSA. Thank you, Mr. Chairman.

And Secretary Lew, thank you for your testimony. Thank you for being here with us today.

I am going to ask a question outside the realm of international finance. I would like to first ask you about an issue in which I have great interest.

As co-chair of the Financial and Economic Literacy Caucus with Mr. Stivers, I am interested in the progress of the Financial Literacy and Education Commission known as FLEC, of which you are Chair, and also the upcoming President's Advisory Council on the Financial Capability for Youth, which the Treasury will coordinate.

As you know, FLEC was created by Congress to coordinate Federal financial literacy strategy.

What is your personal philosophy on financial literacy?

And what do you hope to achieve in 2014?

Secretary LEW. Congressman, I am a strong believer in financial literacy and have been for a long time. I think that people have to make informed decisions when they make financial decisions in their life.

For all too many Americans, it is a mystery when they make those decisions. I have taken FLEC very seriously. I have gone to several meetings. I have worked with CFPB Director Cordray on these issues.

We have made it clear that it is a matter of importance to us personally that we continue to make progress in this area.

I actually think, if you look at the work that the CFPB has done, they have actually made a lot of progress creating the tools for financial literacy.

Part of the challenge is that people have to understand the documents that they end up looking at when they enter into transactions. Part of the challenge is to make sure that the documents are understandable.

And I think if you look at the simplified mortgage disclosure forms that the CFPB has recently issued, it is approaching a level where people who are not financial professionals actually can understand the documents they are about to sign.

So I think we have to remember that you have to work in both directions. You have to increase the awareness and the education of people in the economy, but you also have to make sure that the transactions are not so masked in language that is not comprehensible and in pages and pages of detail that hide the key points.

And I think they have made significant progress in that area.

Mr. HINOJOSA. I look forward to working with you over the next 2 years in trying to take it to a much higher level.

And I am going to move to an international situation that we are discussing.

In your testimony that I read, you state that Europe has made great gains towards financial stability. Like you, I am cautiously optimistic about the improving economies of the United States and Europe.

Secretary, how confident are you in the health of the economies of the eurozone, and what are the indicators that you are watching the closest?

Secretary LEW. Congressman, I look at the progress of the eurozone and think about watching on a daily basis in the spring and summer of 2012 when there was the real fear that any day could bring a crisis. And we have made a lot of progress from there.

There are still a lot of knotty problems, difficult situations that need to be worked through, tough structural decisions that have to be implemented, and risks that are still there. But it is not in the same place of fear that there is going to be an immediate crisis that it was just a year, 18 months ago.

I think they have made a lot of progress. They have a lot more progress to make. I think that the GDP measures are significant. They were negative broadly and now they are positive broadly. It is not equally distributed. Some of the economies, particularly in northern Europe, are doing much better.

I think if you look at the economies of Europe, there is a correlation between how well they are recovering and how much they have embraced the need to make tough structural changes. And I think that one of the things we continue to do is try to be very understanding of how hard that is and the impact it has in the short

term. But to keep the pressure on, because that is the path they need to follow.

Mr. HINOJOSA. I have read that some of the countries like Greece, Italy, Spain, Portugal, and others have very high unemployment rates in the group from 18 to 25 years of age, very similar to the problems we have in the United States. How are they addressing that?

Secretary LEW. They do have very high unemployment rates in Europe and the youth unemployment rate is very high. I think that one of the reasons I mentioned earlier that we are seeing some additional flexibility on timetables is recognition of that.

Excuse me, Congressman, I am getting over a cold.

I think that if you look at—excuse me—this has been a challenging week.

[laughter]

Chairman HENSARLING. Take your time, Mr. Secretary. But you can give a short answer, since the time of the gentleman has expired.

[laughter]

Secretary LEW. My problem is that my voice is not coming back.

Mr. HINOJOSA. Mr. Chairman, being a Texan, give me 1 more minute, won't you?

Secretary LEW. Sorry, Congressman, but I have been losing my voice all week, and this was a longer stretch than I have had for much of the week. So, if you will just bear with me.

I think the economy in Europe is moving in the right direction. Some of the structural changes are significant in terms of opening opportunities to young workers. One of the keys is opening up the channels of credit so that small and medium-sized enterprises have access to capital, because that is where the opportunities for young workers will come from.

Mr. HINOJOSA. Thank you.

Chairman HENSARLING. The time of the gentleman has longsince expired.

Secretary LEW. I apologize for coughing through part of it.

Chairman HENSARLING. The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets and Government Sponsored Enterprises Subcommittee, for 5 minutes.

Mr. GARRETT. Thank you, Mr. Chairman.

Mr. Clay's question sort of precedes mine. Today, I wanted to focus my time on two important issues, accountability and transparency to the American people.

I have been quite disturbed at this Administration's clear pattern of stonewalling anyone who dares shine the light of day into the inner workings of this Administration, from a terrorist attack on a U.S. embassy in Benghazi and Attorney General Eric Holder's refusal to turn over key documents, to a lack of this Administration's cooperation with Congress in providing details regarding Obamacare's failed implementation.

Requests for simple information have either been met with silence or outright refusal by this Administration. This pattern has continued at the Department of the Treasury under your leadership.

Mr. Clay had a very simple question and your answer to him was, "Don't blame me; I didn't know; it was my staff." In my case, it was back on June 7th, 6 months ago, I sent a letter to you asking for details on 3 simple and straightforward questions regarding the IRS scandal. First, I asked when was the first time that you became aware of the IRS targeting taxpayer groups, including targeting independent of knowledge on the I.G.'s investigation. Curiously, the answer came not from you, but from an Assistant Secretary a month-and-a-half later, basically refusing to answer the questions.

The second question I asked was whether you attended any meetings with then-Commissioner Shulman, and whether there were any discussions at that time regarding the IRS conservative-leaning organizations or their tax-exempt status, and a couple of other simple yes-or-no questions. Again, a refusal from you to answer yes-or-no questions.

So then, after several months more passed, I simply called your office and said, "Would you, Mr. Secretary, just give me 5 minutes on the phone so we could talk?" And your answer was, "No, I cannot talk to you, I am too busy." So then, I offered to actually have a meeting with you, not in my office. I agreed to go down to your office at your convenience at any time just for 5 minutes to discuss this. And your answer was, no, you were too busy for the last 6 months to meet with a Member of Congress.

So my first question is: Is it appropriate for you and your staff to deny even a 5-minute phone call or a 5-minute discussion with a Member of Congress on important issues relevant to them?

Secretary LEW. Congressman, first of all—

Mr. GARRETT. That is a yes-or-no question, too.

Secretary LEW. —I answered Congressman Clay's question quite directly. I demonstrated my knowledge—

Mr. GARRETT. To my question—could you answer mine now?

Secretary LEW. —and I will follow up on it and get back to him.

You and I went back and forth at the hearing I appeared at this committee before. And I gave you all the information I had and that remains the case now.

Mr. GARRETT. You never answered the three questions in the letter, and to this day, you have not. Do you think it is appropriate that you would not pick up the phone and talk to a Member of Congress?

Secretary LEW. Congressman, I have responded to your question on multiple occasions.

Mr. GARRETT. You did not. This letter is not from you. This is from some Assistant Secretary. In 6 months, I have not gotten an answer from you. And Mr. Secretary, I am still not getting an answer from you right now, and I think it is deplorable that you would not answer a Member of Congress and it makes—we have to raise these issues over and over again.

But let me get on to other issues—

Secretary LEW. Congressman, on the question of the letter, it has been for generations traditional for the Assistant Secretary for Legislative Affairs to respond. When I was OMB Director, I responded to the President's letters—

Mr. GARRETT. Mr. Secretary, your assistant did not answer the question. When I followed up and I simply asked to speak to you to get a clarification, you would not answer it. So let's move on because obviously you are continuing in the pattern of this Administration of not answering simple yes-or-no questions, and you are doing it here.

Let's go on—I know I am wasting my time because you are wasting the American public's time when you will not simply answer, "Did you meet with someone?" That is a simple yes-or-no question.

In the time that we have left, let's look at the Volcker situation and the rules that have just come out on this. Do you believe that there is any negative impact on the corporate bond market by the new rules that have come out?

Secretary LEW. I think that the rule as it has come out of the five agencies reflects an important balance between maintaining the markets and protecting the economy from the risks—

Mr. GARRETT. Right. So will there be any negative impact on the corporate bond market and liquidity?

Secretary LEW. I think that the financial sector will be able to manage implementing—

Mr. GARRETT. Will there be any negative impact upon the corporate bond market?

Secretary LEW. Look, I think—

Mr. GARRETT. That is a yes-or-no question. Will there be a negative impact on liquidity?

Secretary LEW. Congressman, it is not a yes-or-no questions. It is a very complicated issue and I am happy to respond to you, but it is not a yes-or-no question. It is an important balance that we make sure that firms do not take on risks that put taxpayers in their place, taking on risk if they fail.

Mr. GARRETT. So, let's stop there then. Let's stop there, Mr. Secretary. You are saying that it is okay for them to take on risks such as in the muni market and on sovereign debt, but not corporate debt? You created exemptions in it, did you not, so they could invest in Detroit, for example, which is a failed bankrupt city. They could invest in foreign Spanish banks, which are exceptions as well. So, they can take on and gamble in those markets?

Secretary LEW. I think if you look at the—

Mr. GARRETT. That is a yes-or-no question, Mr. Secretary.

Secretary LEW. —rule, we have struck a balance to protect our markets—their depth, their liquidity, and also to protect taxpayers from being exposed to inappropriate risk. I think the agencies did an excellent job striking that balance to keep economic growth going and to protect the economy and the taxpayer.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here today.

I just have a couple of questions. We learned early on that there is something in every space; nature abhors a vacuum. And so, this is a question asking just for your opinion. What do you think would happen if there is a void left as a result of the United States' nonleadership in the IMF?

Secretary LEW. Congressman, I think that U.S. leadership in the world is important to the United States and it is important for the world. As I talk with my counterparts in Asia and Europe, I hear over and over again, "We need the United States to be the strong leader that you are."

In the IMF, what we see is with our contribution, which is less than 20 percent of the entirety of the IMF, we have enormous influence. We have veto over some important decisions, and we have the influence that goes with that to help drive decision-making in a way that serves U.S. interests and a sounder global economy.

I think that is important for the United States. I also think it is important for the world. We are already seeing that when—if the United States in any way steps back, there is a rush to come in and it kind of starts to fraction, break apart some of that influence. I don't think we should let that happen. It is just too important.

Mr. CLEAVER. I think in some ways we are wanting to become isolates, I think, in the world, and I have some problems with a lot of expansionist things we do. But I am concerned about the IMF and our leadership and economic financial participation.

My other question, though. I represent Kansas City, Missouri. Missouri, not Kansas. And that is important.

That's right. I am just getting an "amen" from my colleagues.

Secretary LEW. I started out here working for somebody who said all politics is local. I get it.

[laughter]

Mr. CLEAVER. Yes.

Kansas City used to be the second largest manufacturer of automobiles in the world behind Detroit. And Detroit has fallen, Kansas City has fallen. I think we are fifth now. But in recent times, we have been building up again. And when I speak with the automobile manufacturers and the workers, the unions, their biggest concern is currency manipulation. I was part of a group that sent a letter to the President asking for currency manipulation discipline in the TPP. Is that possible? What is your position on that, or what is the Administration's position on that?

Secretary LEW. Congressman, we have worked hard and focused hard on currency issues for a long time. From the moment I stepped in at Treasury, it has been an issue that has been very much on my agenda. And if you look at the progress we have made working in the G-20 and the G-7, we have gotten the leading economies of the world to agree to principles that reflect our own, which is that currencies should be market-determined, exchange rates should be market-determined, and that the tools that governments use should be domestic tools for domestic purposes.

We have maintained our focus on that in our bilateral conversations. We have seen progress in the conversations.

Any trade agreement that we reach has to be built on the principles that we have worked to reach in places like the G-20. And those are principles that undergird everything that we do.

So without addressing the specifics of any of the negotiations, it is a core underlying bedrock principle that we are going to be deriving from market-determined exchange rates. We believe the G-20 is an appropriate place to do that, and we have made great progress there.

Mr. CLEAVER. Thank you for that, because it will be difficult for a lot of people to support it in light of the currency manipulation that is going on, particularly with China. And as you know, that creates an imbalance in the sale of automobiles and that is—

Secretary LEW. I have engaged directly with the Chinese on a regular basis on this, and we have seen real progress in terms of the exchange rate approaching—not reaching, but approaching—the point that we are pressing them to get to. I think that they understand they have to get to a market-determined exchange rate.

In our exchange report, we try and focus in great detail on the progress made and where there are still concerns, where interventions are troubling. We have to keep pressing on it, and that is what we are doing.

Mr. CLEAVER. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Neugebauer, chairman of our Housing and Insurance Subcommittee, for 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here this morning.

Mr. Secretary, on October the 7th, I wrote a letter to the Director of the Federal Insurance Office (FOI), Mr. McRaith, inquiring about three reports that are required by law to be submitted to this committee. One of those reports, a report on insurance modernization, is nearly 3 years overdue. Not surprisingly, I have not received any response to my letter.

Do you find it acceptable that these reports have not been submitted to this committee and in some cases are over 3 years past due?

Secretary LEW. Congressman, I know there is a report that is virtually complete and will be here very shortly—I hope even before you leave for your break.

Mr. NEUGEBAUER. Mr. Secretary, I appreciate that, but on a number of occasions that is the same story that I have gotten from Mr. McRaith, is that, "We are going to have that shortly. We are going to have that shortly." And actually, that dialogue began last year.

It is not like these are a little bit late. Some of these reports are 3 years late. And it is—this Administration talks a lot about transparency. But, as I think you have heard some of my colleagues say, we are a little concerned—it is hard to have transparency when you are not hearing from the Administration.

Secretary LEW. Congressman, the modernization report is a very important piece of work. They have virtually completed it. It is in the stages of kind of final production, which is why I can say with some confidence that it will be here very shortly.

Mr. NEUGEBAUER. So when you say shortly, is that shortly next year or the year after?

Secretary LEW. No, no, I am hoping, as I say, before you leave. So, I am hoping it is days, not weeks.

The work that the FIO has done is very important. They have brought a knowledge of insurance into Treasury at a time when we know that the insurance industry is highly interconnected with other aspects of the financial system. It is a complicated system

where we have a lot of respect for State regulation, but there are issues of national importance as well. And I think this report, when it is issued—it won't resolve these issues, but it will cue up for a serious discussion some very important policy questions. And I look forward to engaging with you on those.

Because, frankly, the report will not be the final word. It is going to be opening the conversation so that we can work together on this.

Mr. NEUGEBAUER. Actually, Mr. Secretary, that segues into my next question. The G-20 leaders declaration coming out of the St. Petersburg meeting in September stated that the G-20 leaders "look forward to the International Association of Insurance Supervisors' further work to develop a comprehensive groupwide, supervisory and regulatory framework for internationally active insurance groups, including quantitative capital standards."

Were you personally consulted about that statement? Did you have input into that statement?

Secretary LEW. I am aware of it. It is something that was part of the discussions—

Mr. NEUGEBAUER. Did you support the inclusion of that language in the report?

Secretary LEW. I very much support the FIO being part of the international conversation and asking these questions so that as we inquire domestically as to what are the right steps to take, we do it in concert with our international partners. And the statement doesn't prescribe the end result. It is a process that I think we should be engaged in, yes.

Mr. NEUGEBAUER. So, as you know, the European model is more bank-like in the way that they regulate their insurance industry over there. Do you support that same kind of regulatory framework for U.S. domestic companies that have a much different regulatory structure?

Secretary LEW. I think that raises some very important and some pretty complicated issues. I think that where there is an appropriate need for regulation, we ought to be sensitive to the differences between insurance companies and other financial institutions.

I know the regulators have looked at this and they are looking at being flexible as they use the tools they have. And if they don't have all the tools they need, it is something we should talk about. Because to the extent that there is a need for regulation of insurance companies, it ought to reflect the characteristics of insurance companies.

Mr. NEUGEBAUER. I think one of the things that we hear from the industry, though, as this dialogue is going on, is that there is not a lot of transparency, again, in this process and that the industry, particularly the U.S. domestic insurance industry, feels like that they are being kind of left out of this debate and discussion. And I think they may be concerned that there is some movement within Treasury and others to move to a European model for regulating U.S. insurance companies that many people feel like—when you go back and look at the crisis, the insurance industry fared extremely favorably.

Secretary LEW. The inquiries that have taken place with regard to the Financial Stability Oversight Council (FSOC) have really been questions of determining whether there is systemic risk that is presented by any individual insurance companies.

The question of how to regulate them is a totally different question. The FSOC standard is to make the determination on risk.

And I think that we are very much interested, as regulators follow through, that they think this through carefully and that we not jump to a conclusion which says the banks and insurance companies are exactly the same. So—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Illinois, Mr. Foster, for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman.

I would like to switch a moment to the question of the Iran sanctions. And then, first of all, congratulate you on the recent—this morning's designation of an additional batch of these.

However, it seems to me that the rate at which these have been coming out is sort of erratic. In the 6 weeks prior to the Iranian elections in June, the Treasury Department issued 7 notices of designations of sanctions violators that included more than 100 new people, companies, aircraft, and sea vessels.

Since June 14th, when Hassan Rouhani was elected, the Treasury Department issued only 2 designation notices that identified only 6 people and 4 companies as violating the sanctions.

And now we have a new batch, for which I commend you.

And so, my question is, to what do you attribute this sort of erratic, batch-by-batch nature of the designations? Just start with that.

Secretary LEW. Congressman, the work of enforcing sanctions is painstaking work that we have an extraordinarily talented team at Treasury working on. They are dedicated to it, they are committed to it. And they make progress at the pace that they make progress. I think the designations today reflect the fine work that they have done and the determination that we have to be true to what I said in my opening remarks and what I have said over and over again, that we will continue to investigate for violations of sanctions and take action where we find them.

That is important to the sanctions being effective, that they be implemented.

Mr. FOSTER. Now, in light of this 6-month freeze and negotiating window, many people, including myself, have the concern that companies will say, oh, boy, the sanctions are going to go away in 6 months, and that you will see massive cheating on the sanctions for companies that are trying to gain a commercial advantage with anticipating the easing of the sanctions.

And I was wondering, do you feel like you have all of the authority you need to make sure that any company that is caught cheating on the sanctions gains no commercial advantage from that?

Secretary LEW. Congressman, enforcement is the answer. And I have said in every meeting I have had with CEOs since the interim agreement that there should be no uncertainty, we are continuing to enforce sanctions, no one should think that having Iran on a bill of lading or on a financial record is going to go unnoticed, that we

are going to stay on this and that this is not an opening up of any door to relaxing our core financial, banking, and oil sanctions.

I said it in a public speech again last night. I have probably talked to several hundred CEOs in one group or another, and delivered the message personally.

So I don't know how to be more clear than that. It is not like we have some other mechanism, other than enforcement. But we are very clear that any CEO, any business that steps into a space that violates sanctions is doing it at the risk of having an enforcement action.

Mr. FOSTER. Yes. But do you anticipate, for example, that a company that is caught cheating on this will have sanctions that extend past the time that normal sanctions would be released?

Secretary LEW. Congressman, the duration of sanctions is something that is a technical matter depending on the violation and the provision, so rather than give you an off-the-cuff answer, I would rather follow up and do it on a more detailed basis, based on which provision you are referring to.

Mr. FOSTER. Okay. So I would like to change for a moment to a couple of things that relate to your position on FSOC and some important issues there.

One is the application of, basically, banking capital standards to insurance companies. And I wonder if you have any reaction to the appropriateness of that?

Secretary LEW. To be clear, the only actions taken at FSOC regarding insurance companies were to designate the institutions that met the standard of financial—presenting that degree of financial risk.

The question of how they are regulated is something that each of the regulators will now be dealing with. They have made it clear that they are looking at how to do this in a way that works.

The charge under FSOC is not to implement; it is to make the determination as to whether or not there is that kind of systemic risk. And then, the tools of each of the regulators will be used as appropriate.

But, as I tried to indicate in my response to Congressman Neugebauer, we understand that banks and insurance companies are not identical.

Mr. FOSTER. And another issue related to this in the few seconds left is the issue of collateralized loan obligations and risk retention which is—obviously, C.L.s were not involved in our financial collapse, and the specter of risk retention is something that makes a lot of people uncomfortable.

And I was wondering if you have a reaction to that?

Secretary LEW. I think, in general, the idea that firms should internalize their risks is a very important principle. There are many ways to achieve that. And we have tried, as we have laid out our actions in response to financial reform, to make that clear.

The test is are firms putting themselves at risk rather than tax payers at risk for the business decisions that they are making? And it is—capital is part of it and restrictions, like some of the things, the Volcker Rule, are part of it, and leverage as well.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. McHenry, chairman of our Oversight and Investigations Subcommittee, for 5 minutes.

Mr. MCHENRY. Mr. Chairman, I request unanimous consent to submit for the record five letters from the leadership of this committee to the Treasury Secretary, and two responses from Treasury to those letters.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. MCHENRY. Secretary Lew, thank you for being here.

I want to state this for the record. Article I of the U.S. Constitution establishes and makes vital the oversight authority of the Congress vis-a-vis the Executive Branch. And I am sure you agree with that notion.

But your Treasury Department has stiff-armed this committee in its oversight capacity by your unsupported refusal to provide complete responses to this committee. That is unacceptable.

Chairman Garrett already covered his concern. I also sent you a letter on August 22, 2013, requesting documents that were the subject of a FOIA request made by a public interest group.

The Treasury's position is that the Department would provide this committee with only redacted documents that group already received. This implies that FOIA is applicable to Congress.

Mr. Secretary, I would hope you understand that FOIA does not apply to Congress, and that you will direct your Legislative Affairs staff that they will provide those documents promptly.

Furthermore, in addition, on November 6, 2013, Chairman Hensarling sent a letter to the New York Fed requesting information regarding contingency planning related to U.S. debt limit.

The New York Fed pointed the finger at the Treasury Department, claiming they needed the Treasury's permission to produce the requested information.

Although we have rejected the Fed's claim that it needs Treasury permission, I ask that you commit to resolving this issue and ensuring that the committee receives the requested documents by the requested production date of December 18th.

You can respond in writing. We will move forward.

Additionally, this question of prioritization of debt, Mr. Secretary, you have mentioned in the past that you are unsure whether your Department has the legal authority to prioritize debt payments in the event of a failure to raise the debt ceiling.

I voted to raise the debt ceiling. I think we have to—we have an obligation to pay our obligations.

But have you requested from the—or has your Department requested from the Office of Legal Counsel, the Department of Justice, an answer to this question?

Secretary LEW. Congressman, on the question of responsiveness to oversight, I very much accept—

Mr. MCHENRY. I just asked for you to respond in writing to that.

If you would address this prioritization question: Have you asked or your Department asked whether or not you can prioritize debt from the Office of Legal Counsel—

Secretary LEW. Congressman, the question—

Mr. MCHENRY. —of the Department of Justice.

Secretary LEW. The question of prioritization is fundamentally a policy question. And I think, as your comments reflected, I do not believe nor has any President nor any Treasury Secretary—

Mr. MCHENRY. I understand that. You have established that. Let me ask you to answer my question.

Secretary LEW. And I have also said publicly that ultimately—

Mr. MCHENRY. I appreciate that, but I have 1:54 left. Have you asked the Department of Justice's Office of Legal Counsel whether or not you have the authority, in the event of not raising the debt ceiling, to prioritize debt payments?

Secretary LEW. The issue of whether or not that decision can be made is fundamentally a Presidential decision. It would be a communication—

Mr. MCHENRY. I know, but have you—

Secretary LEW. It would be—

Mr. MCHENRY. —as Treasury Secretary, your Department, requested from the Office of Legal Counsel whether or not you can prioritize?

Secretary LEW. Let me answer your question, Congressman.

It would fundamentally be a question between the White House counsel and the Justice Department, because the President—

Mr. MCHENRY. Okay. Let me point you to the fact that a Huffington Post article from last week says the Obama Administration took the platinum coin option more seriously than it let on.

This idea that you have a $1 trillion coin minted and deposited at the Fed, and then draw upon that, it is, according to the Huffington Post, the Administration did ask the Office of Legal Counsel for this absurd idea to actually be judged whether or not it is legal.

Yet at the same time, you will not say that you have asked whether or not you can prioritize payments? That is deeply concerning—

Secretary LEW. I am prepared to discuss the policy on both of those issues. I don't disagree with you that the platinum coin is not a serious option.

Mr. MCHENRY. Good. I am glad we agree on that.

Let me ask one final question on Volcker.

Who is the primary enforcer of the Volcker Rule?

Secretary LEW. So if I could just go back, Congressman, on the question of the debt limit, the real issue is we must keep all of our obligations.

Mr. MCHENRY. I agree. Let me ask you—

Secretary LEW. That is the—

Mr. MCHENRY. Who is the primary enforcer of the Volcker Rule?

Secretary LEW. The Volcker Rule is a rule that came out of five different agencies. As you know—

Mr. MCHENRY. So there are five different primary enforcers or is there one—

Secretary LEW. There are different aspects of the Volcker Rule, depending on what kind of a financial institution you are. You are regulated by—

Mr. MCHENRY. Will you submit in writing sort of your view of this as Chairman of FSOC?

Secretary LEW. I am happy to respond to your question in writing.

Chairman HENSARLING. The time of the gentleman has expired. As previously announced, the Chair now adjourns the committee for a brief recess. "Brief" is going to be defined as approximately less than 5 minutes. The committee stands in recess.

[recess]

Chairman HENSARLING. The committee will come to order.

The Chair now recognizes the gentleman from Connecticut, Mr. Himes, for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being with us today.

I have a few question, but I just want to take a minute, maybe, to restore a little bit of order to this—or balance to this discussion that has emerged on our debt.

Mr. Secretary, like you, I believe that a concern with our debt is prudent. And I think I say that with some credibility, having supported measures that balance our long-term debt scenario, some of which were unpopular.

However, when that concern becomes ideology blind to all facts and economic advice and reality, it is something different than prudence. In the 5 years I have been here, I have heard over and over and over again that the question is not if we will have a disaster associated with our debt, but when, that just around the corner is a debt-induced disaster that the Federal Reserve's expansionary monetary policy, inflation is just around the corner.

And of course, the hallmark of every single one of those multiple predictions in the last 5 years is that they have been absolutely wrong.

Of course, in those 5 years, a consensus has developed in the economic community broadly shared that in fact the fiscal, the contractionary fiscal policies of this Congress, the austerity, have meaningfully contributed to a reduction in growth and to the loss of otherwise creatable jobs in this economy.

Mr. Secretary, you might be interested to know that when Chairman Bernanke was sitting just where you are sitting, I asked him, conscious as I am of the importance of long-term stability in our debt, whether he could point to any industrialized country which had better managed the tensions in the last 5 years between the need to reduce long-term debt and the need to assist in economic recovery. Sometimes, there are significant tension in those two needs.

The Chairman of the Federal Reserve, Ben Bernanke, could not name a country which had better managed those tensions. And I know you have been a part of that effort and I thank you for your work in that regard.

Mr. Secretary, my question is about the Volcker Rule. Like you, I was pleased to see that the regulators finally came out with a rule. I agree with you; I think that it is strong and comprehensive.

I am, however, concerned by the explicit exemption for proprietary trading with respect to sovereign bonds, and frankly, also the exemption for muni bonds. The headline, "Bank Brought Low by Investments in Greek Debt," I think, is probably not just an idea, and certainly it is a possibility in the future.

So I wonder if you could address the ability under the Volcker Rule of the banks to invest in securities which could be very, very risky and quite volatile over time.

Secretary LEW. Congressman, obviously our initial core concern was the treatment of U.S. Treasurys. And issues arose, particularly with regard to the impact that the rule would have on banks with relationships with other foreign nationals and their sovereign debt.

I believe that the way the provisions were worked out provides guidelines, a path for sovereign debt bonds to be treated appropriately. I think if you look at the structure of the rule, it is clear that there is accountability at the level of the CEO to come up with a plan for implementing these rules in a way that is consistent with the statute and the risks that are being undertaken.

So I don't think all of the detail is necessarily reflected in the black-letter law of the rule. There are going to be questions of interpretation. It was deliberately left to be worked out by the regulators and the firms to reach a balance so that we don't shut down a very important sovereign market, including the market for U.S. Treasurys.

So it is something we will continue to work on with this committee and with the regulators.

If I could just say a word on—

Mr. HIMES. I have one other question. I appreciate that answer. I just, having worked in that industry for a long period of time, know they will gravitate towards exemptions. And both munis and sovereign bonds present the possibility of very real risk. So I hope that you and the regulators will continue to watch that closely.

One other question before I run out of time, Mr. Secretary, pertains to a statement in your written testimony—Dodd-Frank, many of the regulatory changes being largely completed now. I wonder if—I am heartened to hear that, but I wonder if in my 30 or so seconds remaining you could talk a little bit about how you are feeling about systemic risk, and in particular the problem of too-big-to-fail.

To make the question very simple, has Title II succeeded in fact in reducing the likelihood that we will see a major dislocation or problem in one of our major banks?

Secretary LEW. I am not sure I can do that in 5 seconds. Mr. Chairman, do I have—

Chairman HENSARLING. You have 3 seconds.

[laughter]

We will give you about 20 or 30 seconds.

Secretary LEW. Yes, we have made enormous progress since 2009. We are much safer and sounder. And I made some very detailed remarks on this last week. I would be happy to give a more detailed response when I have the time.

Mr. HIMES. Thank you.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Alabama, Mr. Bachus, our chairman emeritus, for 5 minutes.

Mr. BACHUS. Thank you.

Mr. Secretary, I am going to introduce for the record some dialogue from the conference committee that we had just 2 weeks be-

fore we passed Dodd-Frank. And it is what we are still dealing with now that we have the Volcker Rule.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. BACHUS. What I asked, and this was on June 23rd, I asked Mr. Frank if he was aware of any other country that had committed to adopting the Volcker Rule that would be imposed on U.S. firms if this bill went into effect. And I actually said that the European financial ministers have indicated that the Volcker Rule restrictions would actually violate E.U. universal banking laws.

I reminded him that, and Chris Dodd, Chairman Dodd also, he had said just 3 months before, "For us to adopt this rule without the rest of the international community, that makes it unworkable."

And I then said that I felt like universal, unilateral adoption of the Volcker Rule by the United States will only undermine our competitive advantage, and therefore is going to undermine the profitability of financial institutions. If it does that, it raises the cost of capital to American business, consumers, and home buyers, and it will slow economic activity and job creation. And we all agree on the need for more jobs in our country.

Mr. Frank responded to me, and the first thing he said is just sort of a diatribe on Republicans. But after four pages of that, he said, "As for the rest of the world, we are going to get this bill done and then we are going to take it to the G-20 and there will be serious conversations going on with the rest of the world." He talked about Davos, where people were coming together to talk about banning proprietary trading. And he assured me that the world was moving in that direction. And Mr. Kanjorski joined that. So, he goes on for several pages, and basically assures me that the world is going to go along with it.

We know now that they haven't. And just this week, in talking about the Volcker Rule, the Federal Reserve noted, "This rule may create a competitive disadvantage for U.S. financial institutions because their foreign peers are still able to trade proprietarily. There does not seem to be any traction right now for other countries to follow suit with similar rules."

In my opinion, what I said then will happen now, absent restrictions in other countries. Under the Volcker Rule, prohibited transactions will likely be offshored to foreign banks, shifting the risky behaviors to another venue, but not eliminating it from the global financial system as a whole.

I also quoted Mr. Geithner, just as when we talked about the rule. Mr. Geithner was quoted as saying, when I asked him in a hearing a year before, and I repeated that, about proprietary trading and banning it. He said, "Most of the losses that were material for the weak institutions and the strong relative to capital did not come from proprietary trading activity. They came overwhelmingly from what I think can fairly be described as classic extensions of credit."

So what I am saying is that Secretary Geithner said that proprietary trading—and others have also said this—was not a significant cause of the financial meltdown. We have adopted the rule prohibiting proprietary trading. The rest of the world has not. Does that concern you?

Secretary LEW. Congressman, I think fundamentally our objective has to be to meet the challenge of making sure that we are taking the steps we need to to safeguard the U.S. financial system, the U.S. economy, and then to try to bring the world to that high standard.

Mr. BACHUS. But after 3½ years, have we brought the world—

Secretary LEW. I think we have in many areas. I think you are seeing a lot of progress in capital, in leverage, in—

Mr. BACHUS. Have any other countries adopted—

Secretary LEW. I think that now we have just completed—our agency has just completed the Volcker Rule—

Mr. BACHUS. Let me just—

Secretary LEW. I would just point to the comments made by the European commissioner who is responsible for financial regulation, just yesterday, which were quite favorable towards the Volcker Rule and the policy—

Mr. BACHUS. All right. They are quite favorable, but has any country adopted it?

Secretary LEW. I think that other countries will have to make their own judgments. We will continue to make the case. If you look at the response in the United States—

Mr. BACHUS. Have any of them adopted it?

Secretary LEW. I think the question to me is: What is the strength of the U.S. financial services industry? Are we leaving the U.S. financial services industry—

Mr. BACHUS. I understand that. Have any other countries adopted a Volcker Rule?

Chairman HENSARLING. The time of the gentleman has expired, but if the Secretary would like to give a yes-or-no answer to the question?

Secretary LEW. I think that the Volcker Rule in the form it is in is unique, but other countries are looking at—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Peters, for 5 minutes.

Mr. PETERS. Thank you, Mr. Chairman.

Secretary Lew, thank you so much for your testimony and for appearing here today before our committee.

As you know, the United States is in the process of negotiating the Trans-Pacific Partnership, which is a multilateral free trade agreement that now includes Japan, a country with a history of both currency manipulation and closing off their auto markets for imports.

I sent a letter to the Administration in December of 2011 which argued that Japan should not be included in the TPP negotiations until they open up their market to U.S. automobiles. And I, to this day, remain very deeply concerned about the impact of Japan's inclusion in those negotiations.

This hearing, of course, is focused on international finance. And so, I would like to focus on the currency manipulation issue. I know Mr. Cleaver asked you some questions about that earlier. But currency manipulation has cost millions of jobs in the United States and many of those jobs were in my home State of Michigan.

There have been various proposals ranging from my colleague, Congressman Sander Levin, to The Peterson Institutes to the auto industry, to address currency manipulation in the TPP without tying a country's hands to its own monetary policy.

Today, I have with me language from the Automotive Policy Council that I would like to enter into the hearing record, Mr. Chairman.

Chairman HENSARLING. Without objection, it is so ordered.

Mr. PETERS. And as I mentioned, this proposal would direct currency manipulation—or would target, rather, direct currency manipulation without stopping necessary quantitative easing by evaluating first the protracted large-scale intervention in one direction in the exchange market; excessive and prolonged accumulation of foreign assets and, three, prolonged current account deficits or surpluses.

So my question is, just generally speaking, do you support strong and enforceable currency manipulation provisions in a free trade agreement to address trade-distorting practice, generally speaking?

Secretary LEW. Congressman, I tried in my response to Congressman Clay to explain my view. And I am happy to do it again.

I believe that it is very important that we continue to insist on having market determined exchange rates, that we do that through the proper mechanisms.

We have done it, I think, quite effectively through the G-20. We are doing it quite effectively in bilateral relations.

I think if you look at the policies country by country in our currency report, try to analyze in some detail what we see as problematic and what we see as movement in the right direction.

With regard to some countries, in Japan, we, for a decade, were saying Japan needed to do something to get its economy moving. The deflation in Japan was hurting the world economy and it was hurting the U.S. economy as well.

Whether or not their monetary policies are manipulation or not depends whether or not they abide by the standard of market determined exchange rates and domestic tools for domestic purposes.

Obviously, it is a fine line. We are going to keep our eye on that line to make sure that countries don't cross it. And when they cross it, we are going to press very hard. We have done it time and again.

I have met with my counterparts from Japan on many occasions. I met with my counterparts from China on many occasions. And we have made it exceedingly clear that this is a matter of necessity in order for us to have our bilateral relations continue to improve.

And I think we are making a lot of progress. A trade agreement has to be built on that firm commitment for us to continue making progress on these matters.

Mr. PETERS. In response, in the negotiations that have gone on that you talked about, the problem still is about enforcement and whether or not we have the ability to step up and enforce those kinds of actions on currency manipulation and hopefully bring it to an end.

And that is why I think it is important to actually have it in the agreement, in the TPP agreement. And I just want to say that in June of this year, 230 House Members, including 30 Members who

are on this committee, including myself, sent a letter to the President calling for currency manipulation disciplines to actually be written into the TPP.

And in September, we had 60 Senators who sent you and Ambassador Froman a letter calling for strong and enforceable currency manipulation disciplines in the TPP. Now to my knowledge, none of us has received even a letter in response—and this is a letter from 230 House Members and 60 Senators.

Does the Administration plan to send a letter and respond directly as to what will be in this TPP to us?

Secretary LEW. Congressman, I realize this is different than the letter, but I have spent a fair amount of time with Members of Congress on this. I spent several hours with the Ways and Means Committee on both sides discussing it. I have talked to many Members about it. I look forward to remaining in close conversation.

Mr. PETERS. Good. I appreciate that. And hopefully, we can get that in the agreement.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Georgia, Mr. Westmoreland, for 5 minutes.

Mr. WESTMORELAND. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here. This is kind of off the subject, but I would like to ask this of all of our witnesses, are you taking part in the Affordable Care Act change?

Secretary LEW. Congressman, like most of the employees at the Treasury, I participate in the Federal employee health benefit plan.

Mr. WESTMORELAND. Okay. So you haven't voluntarily gone on the exchange? Because all the staff in here and the Members here are required to be on the exchange. And if it is such a good deal—

Secretary LEW. The goal of the Affordable Care Act obviously is for employers to provide coverage. Federal employees have access to coverage with cost sharing between the Federal Government and the employee. And I participate in the Federal employee health benefit plan, as do most employees.

Mr. WESTMORELAND. We are all envious. We wish we could have stayed there, too.

I want to follow up a little bit on the Volcker Rule.

From 2006 to 2009, you were the lead at Citigroup's alternative investment unit, correct?

Secretary LEW. I was in the—I ran operations, not the business practices.

Mr. WESTMORELAND. But you ran that group's proprietary trading, right?

Secretary LEW. Just to be clear, I was chief operating officer. So I was responsible for kind of the internal mechanics in the business. I was not making investment decisions.

Mr. WESTMORELAND. Okay. But you were doing proprietary trading.

Secretary LEW. The firm did, yes.

Mr. WESTMORELAND. Yes.

Would those people still have a job today?

Secretary LEW. I think I have spoken to my views in my response to questions on the Volcker Rule. I think coming out of the finan-

cial crisis, it is incumbent on all of us to ask what was happening before 2008 that should be done differently. I believe that this—

Mr. WESTMORELAND. But you never thought you or Citigroup or anybody else was doing anything wrong? Did you feel like you all were doing something that was sleazy or—

Secretary LEW. I think, going forward, the challenge we have is to ask the questions: how do we take risk out of the financial system; how do we maintain strong, healthy financial institutions; how do we protect taxpayers from being exposed—

Mr. WESTMORELAND. While Citigroup was doing the proprietary trading, do you think they were weakening the company or taking a big risk?

Secretary LEW. I think that the challenge going forward is to look at what practices can we put in place to make sure we have visibility into financial institutions and make sure that they are not taking on risks which they can't internally absorb themselves.

And I think the Volcker—

Mr. WESTMORELAND. Did you ever take any of the—did your group or Citigroup ever take on any of these things that they didn't feel they can manage?

Secretary LEW. I am not testifying today on behalf of one firm or another.

Mr. WESTMORELAND. Oh, I know.

Secretary LEW. I think I have made it clear that the positions I have taken reflect my view and the view of the Administration. And it may not be consistent with views that are shared by people I may have worked with in the past.

Mr. WESTMORELAND. Sure.

On November 26th, the Treasury and the IRS published in the Federal Register proposed guidance for clarifying the range of acceptable political activities for tax-exempt social welfare organizations under Section 501(c)(4) of the Internal Revenue Code.

Were the same IRS personnel who targeted the nonprofit conservative organizations responsible for making the decision as to what is political and what is not political under the law?

Secretary LEW. To be clear, Congressman, in the aftermath of what we all discovered was going on in that program, all of the senior leadership in that area has been replaced. We have had significant new leadership, a set of leadership changes put in.

So in general, it is—

Mr. WESTMORELAND. Who is going to be making the decision as to what—

Secretary LEW. There is a policy in there, to be clear, there was an I.G. report. The I.G. report called on us to take a number of actions. And one of the actions was to provide greater clarity here.

The notice that you are describing was not a final act. It was asking for comment to—

Mr. WESTMORELAND. All right—

Secretary LEW. —conversation. I think we have some policy that we have to make. And that policy is policy that is going to be made by policy officials and we should do it in conversation—

Mr. WESTMORELAND. Do you think it is good to be putting new rules in while we are in the process of trying to investigate?

Secretary LEW. I think it is important that we took all of the I.G. recommendations seriously. We have acted on each of them. This was one. And while it is not final, it is a step in the direction of working through what the right—

Mr. WESTMORELAND. When do you think it will be finalized?

Secretary LEW. I actually would have to get back to you on the schedule. I don't know the exact schedule. This was the first step. So, it is some space away from being final.

I think this is an important subject and there is a need for comment and for us to hear the different views.

Mr. WESTMORELAND. Thank you, sir.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Michigan, Mr. Kildee, for 5 minutes.

Mr. KILDEE. Thank you, Mr. Chairman.

I have a couple of questions, but I just wanted to say, Mr. Secretary, that today, as I think we are all aware, the Treasury Department designated a number of entities that have been providing support for Iran in violation of international sanctions.

And I just want to thank you for your continued diligence on that point. It is obviously important to the Congress. There is discussion and a lot of debate occurring even as we speak on this particular question. And it is a pretty dynamic condition that we are in.

For me, it is particularly important. I have a constituent, Amir Hekmati, a former U.S. Marine who was held prisoner and has been for nearly 2½ years in Iran. So I want to thank you for your continued diligence on this subject. And if there is time, I would invite any comment that you might have on that particular question.

I just want to return to the question of the Trans-Pacific Partnership. I represent Flint, Michigan, and Saginaw, Michigan—communities that—in the case of my own hometown, once had 79,000 auto workers, people working for the auto industry directly, and now that number is roughly one-tenth that number. So we have seen the effect of some trade agreements that are sold on the notion of economic growth but don't necessarily deliver, and in particular communities actually have exacerbated an already difficult problem.

And for a year now, under the direction of Prime Minister Abe, Japan has taken a number of drastic macroeconomic measures, including setting negative yen interest rates, engaging in major quantitative easing measures, including setting negative interest rates. That has caused the yen to drop roughly 20 percent to the dollar over the past year, severely undermining our competitiveness.

And I guess I would like to ask, without going into much further detail, what will Treasury do to ensure that U.S. exports remain affordable and domestic manufacturing jobs are protected as we move forward and potentially see TPP enacted, and particularly with Japan's involvement?

Secretary LEW. Congressman, I think our commitment to making sure we have a healthy U.S. auto industry is reflected in many actions that we have taken. And I was very pleased this week that we were able to sell the final shares of GM stock that the govern-

ment owns, and leave GM and Chrysler stronger than anyone thought they would be. And it is our goal to have a competitive domestic auto industry. It is so important to our economy and to our country.

I think that the challenge of—in taking the policy agreements that we have reached on exchange rates, which I described earlier, and making sure each country lives up to them is something that we have to do constantly. We have to do it in our bilateral conversations. We have to do it in our multilateral conversations.

I think that we have taken it very seriously. We continue to take it very seriously. And we are making progress.

I think that the fact that we got an agreement in the G-20 in February to the principles that I described is very significant. Living up to that commitment is something I remind my counterparts on a constant basis is as important as the agreement itself.

I think if you look at Japan's economy, they were in a long-term period of deflation and negative economic growth. There was a need for them to take action with their combination of policies. And the question of whether they ultimately crossed the line is one that we are very alert to, and as we said in our currency report, we will keep an eye on.

But it is a good thing for the U.S. economy for Japan to be out of deflation and growing; is one of our biggest trading partners. And in our relations with countries, we don't shy away from being very direct on making sure that they live up to their obligations which they have agreed to, in the case of Japan as a member of the G-20.

Mr. KILDEE. I thank you for that. I just want to make sure that there is continued diligence on this. The auto community has really suffered. Many communities don't consider themselves auto communities, but I would suspect that every Member of Congress, on this committee in particular, would say the fact that we have such a trade deficit, and particularly in the auto sector, impacts the local economy and it really affects our ability to put people back to work.

Secretary LEW. If I could just respond on the issue you started with. We are very sensitive to the suffering of people who are held in—Mr. Hekmati is very much on our minds. I would refer you to the State Department. They have kept a very close eye on this.

Mr. KILDEE. Thank you very much.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Florida, Mr. Ross, for 5 minutes.

Mr. ROSS. Thank you, Mr. Chairman.

Mr. Secretary, thank you very much for being here.

In my home State of Florida, insurance plays a significant role in our economy and our markets. We have natural disasters there probably more frequently than other States.

In fact, Kevin McCarty, our insurance commissioner, has testified on the importance of insurance companies to appropriately match their assets with liabilities. And I am encouraged with the Federal Reserve Board's recent announcement that more insurance experts are necessary as we look into continuing in the regulatory scheme, especially with capital requirements under Basel III.

My concern, and you have addressed this a little bit, you have acknowledged that there is a difference between capital requirements, I think, for insurance companies and for banks. You stated in your initial testimony—your written testimony today that, "We will focus on promoting vigorous implementation of Basel III, ensuring that risk weighted assets are assessed consistently across borders, and that Basel III's high-quality capital standard is met."

My concern has to do with what assurances can the Treasury give to make sure that certain insurance companies are not subject to bank-centric capital requirements which do not fit their business models?

Secretary LEW. Congressman, I know that as the regulators look at implementing supervision, they are looking very hard at the question of how to treat insurance companies. Obviously, they don't have infinite flexibility. They—

Mr. ROSS. But you acknowledge that there is a difference between the two.

Secretary LEW. I have acknowledged there is a difference, and I have acknowledged that they are looking to define flexibility in their tools. I can't speak for them in terms of how they will exercise that.

Mr. ROSS. Would you give them any—would you give these insurance companies any advice as to how to prepare for what may be coming down the pike as far as capital requirements?

Secretary LEW. My advice would be for them to work closely with the regulators that supervise them, and to have this conversation that we are having right now.

Mr. ROSS. Again, looking back at my State of Florida, I think we have a very good framework. And we have a very good regulatory scheme. The Financial Stability Oversight Board, of which the Department of the Treasury is a member, released a report in August recommending that the United States consider federalizing insurance supervision. Is this something with which you agree?

Secretary LEW. I think that we need to keep taking a look at how we are working at the State level, and at the Federal level.

Mr. ROSS. Because there is a pre-emption there that we have to be concerned with. And I think in Dodd-Frank, we have reaffirmed McCarran-Ferguson and that State-based regulatory schemes work for consumers. But there must be something here that allows for some assurance that consumers can be guaranteed that the Federal Government is not going to impose new requirements that raise premiums.

Secretary LEW. The question that Congressman Neugebauer was asking earlier about studies, the reports that—

Mr. ROSS. Right.

Secretary LEW. —the Federal Insurance Office is issuing, when they issue the report on the future of the insurance industry, it will raise some of these questions so that we can have a discussion of what, if any, is an appropriate Federal role.

And we have been very respectful of the States' role in this area. We are also very aware that there is an interconnectedness which raises national issues. And we have to have the conversation—

Mr. ROSS. Good. Because I want to give you an example. Most insurance companies use statutory accounting principles. They re-

quired by—in fact, the National Association of Insurance Commissioners recommends that. However, the Generally Accepted Accounting Principles (GAAP), are used more for bank-centric entities.

If FSOC deems certain non-bank entities to be Systemically Important Financial Institutions (SIFIs), would they not then require them to change their accounting procedures from the way they report to the State to change to the way they report to the Federal Government? That is an issue I see that could realistically happen.

Secretary LEW. I know from the conversations that I have had with regulators that they are very sensitive to the fact that there is an ongoing regulatory structure. And these are issues they are working their way through.

Remember, we are just beginning this practice.

Mr. ROSS. Oh, I agree.

Secretary LEW. —we have to work our way through to make sure we—at a Federal level we do the job appropriately, and we do it in a way that doesn't unduly disrupt—

Mr. ROSS. And, again, just some assurance for—because ultimately it is the consumer who is going to have to pay for this. Because the cost of compliance is one of the largest—in fact compliance officers are one of the fastest growing occupations in this country, thanks in large part to the regulatory environment that we have here.

But I guess my concern is that we know what is coming. We know that there is going to be a time when an insurance company may have to make a decision as whether they can accommodate the regulatory scheme of accounting principles, and in order to do so, their cost is going to have to be passed on to somebody.

And I guess I am just looking for some assurance that may not have to happen.

Secretary LEW. Congressman, I can assure you that the regulators are looking carefully at how to do this in a way that works for the economy and for the industry.

Mr. ROSS. I am very hopeful about that.

Thank you. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Florida, Mr. Murphy, for 5 minutes.

Mr. MURPHY. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here.

Back to the Volcker Rule, there has obviously been a lot of discussion about that today. We started to hear a few questions—Mr. McHenry brought this up, and didn't really give you a chance to answer. Would you mind taking a minute to talk about how the regulators are going to split up their responsibilities in regulating Volcker?

Secretary LEW. The regulators regulate different entities based on their characteristics. So depending on where institutions are currently supervised, that will flow through into the Volcker Rule, depending on who their primary regulator is, and what products they are engaged in.

So I don't think the Volcker Rule actually creates new lines. The reason there are five agencies is we have a regulatory structure

that divides up responsibilities for different institutions and different products. The Volcker Rule is just an extension of that.

Mr. MURPHY. Will there be a clear head of those functions?

Secretary LEW. I think the clarity that each of the agencies issued the same rule, they went through a process where they worked hard to simplify it.

It is not a long rule. It is about 70 pages long. It leaves some space for supervisors to engage with the entities that they supervise to work through some detail.

And I know that the intent is to have clarity that there is one set of rules. And now, it will be implemented through a regulatory structure that sometimes does create some shades of difference between entities based on what regulator has jurisdiction over them and what the characteristics of the entity are.

So, I think there is an underlying issue in our regulatory system, that it is a complicated system which divides up responsibility amongst many different regulatory authorities.

I think actually, in the case of the Volcker Rule, the fact that they were able to agree on common rule text is a step forward. It is, I think, unprecedented to have had five agencies act on the same day, on the same rule text.

And that should give some encouragement that there is really a goal here of doing it in a sensible way.

If I could just take one moment, earlier I was asked about whether other countries have a form of the Volcker Rule. And, while I said the Volcker Rule is unique, it is, in fact, the case that France and Germany have their own form of rules here. So we are not the only country to be dealing with this issue of proprietary trading.

Mr. MURPHY. So you are not worried that this will, in fact, set American companies back, put us at a disadvantage?

Secretary LEW. I'm sorry? Could you—

Mr. MURPHY. You are not worried that this will, in fact, set American companies back?

Secretary LEW. I believe that the American financial system is sounder and America's financial services companies are sounder because of all the steps we have taken since 2009.

I don't think that it served our industry or our economy well to go through the financial crisis that we did in 2008 and 2009.

So, if one balances kind of short-term and long-term issues, I think we are leaving the industry safer and sounder than it was, and that is a good thing.

Mr. MURPHY. Another question, shifting gears a little bit: I wonder if you can put a number on what the dysfunction in this institution has cost the American taxpayer? Whether it is the shutdown, the sequester instead of the smart spending cuts, continuing resolutions, if you can put a number on that?

Secretary LEW. It is hard to put one number. I believe deeply that the uncertainty and anxiety caused by the repeated financial crises, fiscal crises that were manufactured because of this process have hurt the economy. I think we see businesses holding back because they are uncertain about what the next 6 months will bring.

I think today is actually a step in the right direction. Small as the budget agreement is compared to the grand bargain people

talked about, it backs out some short-term discretionary cuts that were hurting the economy, replaces them with longer-term structural savings, and it provides clarity, so that for the next couple of years, Congress can hopefully avoid the kind of dysfunction you described.

Mr. MURPHY. Let's hope so. I have 1 minute—

Secretary LEW. But I would just underscore that it is important to extend the debt limit in the same way.

Mr. MURPHY. Thank you.

I want to ask about FSOC and their process of designating institutions as systematically important.

Recently, there have been some reports saying that large asset managers will be designated as SIFIs. I wonder if you can talk briefly about that decision and if you are going to be relying on the Office of Financial Research's (OFRs) recent report on asset managers to make that determination.

Secretary LEW. Congressman, first of all, the Office of Financial Research study is a piece of research. It is not a decision by FSOC. It is just one of the pieces of analysis that will be considered. And it will be part of it. OFR was created in order to provide FSOC with that kind of research.

I think the important thing is we can't be afraid to ask questions. And it doesn't mean you know the answer when you ask the questions. We have to follow the data and the analysis where it takes us. And we have to do it in an open-minded way.

Mr. MURPHY. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Mr. Secretary, welcome to the committee.

Is the mission of the Export-Import Bank to support U.S. exports and jobs for U.S. workers?

Secretary LEW. It is to promote opportunities for U.S. export, which is good for the U.S. economy and for creating U.S. jobs.

Mr. BARR. And is the mission of the Export-Import Bank to pick winners and losers among U.S. industries?

Secretary LEW. It is to level the playing field in the world so U.S. industry has the ability to compete in a fair way.

Mr. BARR. The reason why I ask those questions is because I am from Kentucky, and like Chairwoman Capito, from a coal-producing State, and so I share her concern about Treasury directives and policies with respect to the coal industry.

We want to see a future for the coal industry and the vitality of the American coal industry.

Kentucky is the third largest coal-producing State in the country. And so, my questions really are directed on behalf of the 6,200 coal miners in my State who have lost their jobs, with all respect, because of the anti-coal policies of this Administration over the last couple of years.

And so, with respect to the policies directed to the multilateral development banks, most notably the World Bank, opposing funding for new coal plants and also the Export-Import Bank has adopted at the Administration's direction stringent carbon standards that essentially prohibit funding for coal-fired power plants abroad.

I noted with optimism the written testimony that you presented here today, where you indicated that Treasury has worked successfully to secure support from the World Bank and the African Development Bank for President Obama's Power Africa Initiative, which, as you say, aims to bring energy to half-a-billion people in sub-Saharan Africa.

I share your interest in that, because for many parts of the world coal-generated electricity is vital, because it remains one of the only means to lift people out of darkness, literal darkness, into energy diversity and energy prosperity.

And, in fact, the International Energy Agency estimates that over 1.3 billion people on this planet, nearly 20 percent of the world's population, live with no access to electricity, to say nothing of the 1.7 billion who have very limited access.

So my question is, the rhetoric in your written testimony that we want to deliver energy, diversity, and opportunity to people living in poverty in Africa, and the reality of the policy which is depriving these impoverished people of access to affordable, reliable coal-fired power, how do you reconcile the policy, the reality of the policy, and this rhetoric and this desire, the rhetorical desire to deliver energy opportunities to people in poverty?

Secretary LEW. Congressman, we believe very much in being good partners in helping developing countries gain access to electricity. It is key to their economic growth and their further development.

There are a lot of ways to develop electricity for a lot of these countries. Renewables and hydro and natural gas are—

Mr. BARR. But the reason why these countries are in poverty and the reason why these people are in poverty is because they don't have access to affordable, reliable, baseload power. Coal is a proven technology. Why would we discriminate against this particular reliable source of energy?

Secretary LEW. As I tried to explain in my response to Congresswoman Capito, we have very strong concerns about climate change domestically and internationally. And we are trying to balance our concerns while promoting access to energy around the world.

Mr. BARR. I understand. I heard your testimony before.

Secretary LEW. Our policy is—regards our vote in international bodies.

Mr. BARR. Right.

Secretary LEW. It does not regard private financing. Nor does it in every case—

Mr. BARR. With respect, to reclaim my time, I would encourage Treasury to reconsider. If the goal truly is to deliver energy diversity and opportunities to impoverished nations, we ought to consider true energy diversity, which would include a portfolio of coal-fired power.

Quickly shifting to the Volcker Rule, I do want to focus on the ambiguity and complexity of the Volcker Rule and whether or not the rule is capable of consistent enforcement.

You have heard in recent days after the final issuance of the rule, Fed Governor Sarah Bloom Raskin at the Federal Reserve talking about how Section 619 of Dodd-Frank certainly doesn't specify enforcement standards.

She indicates that the SEC may bring one perspective in its supervision of broker-dealers, and the OCC may bring a different perspective.

Commissioner Gallagher of the SEC says that banking agencies can employ discretion, whereas at the SEC, a rule is a rule, and they have a different approach.

So with a 71-page textual rule, no guidance really in the statutory language of Section 619, and 882 pages of explanation, how are banking and market regulators under your purview supposed to enforce this rule? How are the five separate regulators supposed to enforce the rule consistently when they have such divergent philosophies?

Secretary LEW. Mr. Chairman, may I take just 30 seconds to respond?

Chairman HENSARLING. Brief response, please.

Secretary LEW. Congressman, I think that we have for 100 years seen the evolution of our financial regulatory system that has worked to create the five bodies. I think that the fact that the five agencies agreed to an identical rule text and are embarking on supervision and enforcement from a common starting point is enormous progress. So, I think we are going into this stronger than anyone might have expected.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Maryland, Mr. Delaney, for 5 minutes.

Mr. DELANEY. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for joining us here today.

I was going to frame my question around the issue of asset managers being systemically important, which I don't think they should be deemed systemically important. But my good friend and colleague from Kentucky made me think about another question that I want to ask you, kind of a follow up to what you were talking about.

And I would just be interested in your opinion on this topic. If you were confronted with the following kind of policy question that was being posed to the President, which is that we would implement some form of market-driven and market-based carbon tax. And if the revenues produced from that form of a carbon tax were used entirely to provide a variety of tax breaks to individuals and businesses, so that it was a revenue-neutral proposal. But we actually had a true market-based carbon tax, which is something I am in favor of, but that the revenues generated from something like that were entirely given back to the American population either through individual tax breaks or through corporate tax breaks.

How would you advise the President to think about something like that? What would be your directional view on a step like that?

Secretary LEW. Congressman, this has obviously been debated over many decades. I was part of an Administration that proposed a BTU tax and was unsuccessful because it had such resistance in the 1990s. I think these are questions we have to look at. But the right context is in terms of comprehensive tax reform where you are looking overall at our tax system and how to make it more conducive to a growing, efficient economy.

And the Administration has not made any proposals—

Mr. DELANEY. Right. I agree with you. Obviously, the best way to do tax reform is in a comprehensive manner, both for individual and corporate. And I say this respectfully, I am not trying to pin you down, but if you were just presented with the option that I have described, which—so I am not going to allow you to defer to comprehensive reform because I agree with comprehensive reform. But just directionally, I am trying to get a sense as to how you weigh these things.

Because politically, when we think about a carbon tax, again a market-based carbon tax which allows the private markets to do what I think we oftentimes try to have regulators do too much of. I would much rather see the private market adjust behavior in a way that I think is in the best interests of us across the long term, as opposed to trying to regulate that behavior.

But if we were to have a real market-driven carbon tax, and the only way that could be done politically was by taking those tax revenues and giving them back to individuals and corporations through a variety of tax reductions, do you think directionally, that is something you would be supportive of? Or are you not at a point where you could comment on that?

Secretary LEW. Congressman, I am really not at a point where I could comment on it. I haven't looked closely at this matter in recent years. I think that it would be a good thing if we got deeply into the debate over broad tax reform in a context that helps deal with our long-term fiscal challenges. It is not enough to be revenue-neutral. It has to help solve the fiscal challenges we face. And we haven't gotten deeply into that discussion—

Mr. DELANEY. But if it were just revenue-neutral, do you think it is compelling enough to take this step towards behavior that, in my opinion, would change climate change?

Secretary LEW. I appreciate that you are asking the question for a third time, but I am just going to have to say I would have to look at it and get back to you.

Mr. DELANEY. Do you think climate change is a big economic risk to the United States?

Secretary LEW. I do.

Mr. DELANEY. Do you think corporate tax rates are too high?

Secretary LEW. I think that, as we have made clear, we think that it is important that we do business tax reform so we lower the statutory rate, being more competitive, and flatten out some of the system so that it doesn't distort economic decision-making.

Mr. DELANEY. Okay. Thank you, sir.

I yield back.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here today.

I would like to touch a little bit on the coal-fired power generation guidelines that have recently come out, following up on Congressman Barr and Congresswoman Capito.

Did the Administration consult with other countries and develop these new policies as a result of multilateral negotiations at the boards of these institutions?

Secretary LEW. We have had discussions. I would have to check whether they were discussions that would rise to a level of negotiations.

Mr. ROTHFUS. I would be interested in hearing if they were, so if you could please follow up with us in writing to see who was involved with those.

My concern is that this is essentially a unilateral political decision that was made at the White House without consulting our friends and allies.

Secretary LEW. We have had conversations with our friends and allies about it. So it is obviously our view, but it is not something that we have just done without talking to our friends and allies.

Mr. ROTHFUS. Can you tell us whether the countries that will be made ineligible for development bank funding for coal-fired power plants agree with this new U.S. policy?

Secretary LEW. I think you can see from the facilities proposals that are moving through that there are plans that continue to be presented for funding.

Mr. ROTHFUS. Yes, we hear a lot about China doing a lot of investing in Africa. Won't countries just start buying Chinese coal-fired power plants that are less durable and that do not have the same rigorous standards that we have in the United States?

Secretary LEW. I think that relates to a separate question, which is that China is increasingly looking for ways to increase its participation in multilateral—in international—

Mr. ROTHFUS. Is China adopting the same regulations or the same guidelines that you—

Secretary LEW. I don't believe so.

Mr. ROTHFUS. Is it fair—

Secretary LEW. I will say this, that China—

Mr. ROTHFUS. Is it fair, Mr. Secretary, to deny underdeveloped countries the opportunity to grow their economy with low-cost energy the way the United States has?

Secretary LEW. Congressman, we are trying to help underdeveloped countries gain access to bountiful and, in many cases, renewable energy sources.

Mr. ROTHFUS. How many people have been lifted out of poverty because of solar power?

Secretary LEW. Hydro is a big factor in many underdeveloped countries. And I think solar and renewable have potential. I would say this about China, China is confronting climate change in a very real way because they are dealing with a public health problem in their own country which they—

Mr. ROTHFUS. Has China suspended the construction of coal-fired power plants?

Secretary LEW. They haven't suspended, but they are very much focused on how they can reduce carbon emissions.

Mr. ROTHFUS. I would like to switch gears a little bit. In a recent article that appeared in the pages of The Wall Street Journal, it was reported that the number of banking institutions in the United States has fallen to its lowest level since the Great Depression, down from a peak of more than 18,000 institutions to below 7,000.

This significant decline has come almost entirely in the form of exits by banks with less than $100 million in assets, in other

words, our community banks. Rising regulatory cost is cited as a major reason why these numbers are declining. Over the past year, this committee has heard from a number of witnesses about these rising regulatory costs and how they acutely burden small financial institutions, both community banks and credit unions.

Mr. Secretary, are you concerned about these bank closures and consolidation within the financial services industry?

Secretary LEW. Congressman, I think community banks play a very important role in our economy. I have met with community bank representatives on quite a number of occasions. I have met with regulators and I have shared my concerns with them.

I think that if you look at the actions taken by regulators, it shows a great deal of attention to trying to carve out rules that treat community banks appropriately, even the Volcker Rule that was finalized this week. So I think we are concerned with the health of community banks and are trying to balance the responsibilities we have to ensure safety and soundness in the financial system with a good opportunity for community banks to be healthy.

Mr. ROTHFUS. In a recent speech that you delivered at the Pew Charitable Trusts, you heralded the work of the Consumer Financial Protection Bureau, particularly its implementation of the new qualified mortgage standards which will go into effect in a couple of weeks. You also criticized the work of this committee to institute much-needed reforms at the CFPB to make the Bureau more transparent and accountable to the American people.

Just a few weeks ago, before you delivered that speech, Chairwoman Capito and I held a roundtable back in Pittsburgh where we heard firsthand from banks, credit unions, housing advocates, and community development organizations about how the Q.M. rule as currently written will cause significant harm to the economy and housing market and will make it more difficult for working families in western Pennsylvania and around the Nation to buy homes.

As the Chairman of FSOC, you have some oversight authority over CFPB rulemaking, including QM. So I would like to hear your response to these concerns.

Secretary LEW. Congressman, I think that as Director Cordray has indicated, they are working through the final details, and I believe that many of those concerns can be addressed. And when the institutions understand better—

Mr. ROTHFUS. Those concerns—I would encourage you to listen to the advocates for the low- to moderate-income borrowers.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and Ranking Member Waters.

And thank you, Mr. Secretary, for being here.

First, let me start by saying thank you to all of the Assistant Secretaries, Assistant Chiefs of staff or Assistant Legislative Directors for their scholarship and their hard work because I am sure much of what you are getting today has been scribed, signed, and sent from some assistant.

So I guess my question to you would be, in your selection of assistant secretaries, would you say, yes or no, that some of them in their complex specialty areas are as talented or even more talented than you?

Secretary LEW. I am thankful every day that I work with people who know much more about many of the things that I work on than I do. I think that is a requirement in any of these positions that we have. We make the Federal service attractive to people who come with technical knowledge and the ability to help support decision-making by policymakers like myself.

Mrs. BEATTY. Thank you.

We have heard the word "radical" used to describe President Obama's response to our financial crises. So hearing it used with so much disdain, I decided that I would do some research on radical responses and plans from Presidents.

And President Bush came up repeatedly. Let me just share with you: President Bush outlines radical plan to part-nationalize banks. And he said this in a press conference from the White House as he authorized hundreds and hundreds of billions of dollars with banks to shore up the financial crises in 2008.

And in his televised statement, he said, it was essential, although it was unprecedented, it was necessary to be aggressive to address the financial crises.

So would you say sometimes, when you are a real leader, it takes radical actions—and that is not said with disdain—whether it is climate preparedness, whether it is health care, whether it is the debt ceiling, that real leaders sometimes must take aggressive, radical actions?

Secretary LEW. I will leave to others whether the word "radical" is the right word to describe it. But taking decisive and effective action is a mark of leadership. And it is one that I am proud that we have tried to follow in the work I have been describing today.

Mrs. BEATTY. Thank you.

Now to something a little more related to financial services.

For almost 11 months, I have served on the Financial Services Committee. And certainly, we have heard, as you have heard, a lot about oversight and regulation. Is it too hot, is it too warm, where should we be in between with it?

So my first question to you is, is there a broadly comparable market segment of what we call small or mid-sized banks in places like Europe or China?

Secretary LEW. The banking systems overseas tend to be very concentrated. And they have a real challenge in many countries opening up lines of capital that get into small and medium-sized enterprises.

So I think the variety, the diversity of the U.S. system serves us well. And I think we have the deepest and most liquid financial markets in the world. Part of that is due to the fact that we have a variety of different kinds of institutions serving different needs.

Mrs. BEATTY. Okay. Would applying the same banking regulations, let's say covering a $2 trillion bank, be appropriate for, let's say, a $40 billion bank?

Secretary LEW. We have tried, as I noted a few moments ago, at every level to be sensitive to the fact that our rules have to treat

differently firms that present different characteristics and that they have to be designed to meet the needs of ensuring financial stability.

And that is why there are special provisions that provide a different kind of treatment for smaller banks than larger banks. It is why we have supplemental requirements on the very largest banks, ranging from the living wills to supplementary capital requirements. So we can't have a one-size-fits-all system, and we don't.

Mrs. BEATTY. Then lastly, generally speaking, is there any reason, based on that answer, to believe that the average, small or mid-sized bank is actively participating in global financial activities?

Secretary LEW. I think every bank has its own unique book of business, but I think most of your smaller banks are dealing with pretty much local business.

Mrs. BEATTY. Okay.

Thank you very much. I yield back.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from California, Mr. Royce, the chairman of the House Foreign Affairs Committee, for 5 minutes.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. Secretary, I want to thank you for your comments to Mr. Neugebauer earlier today regarding the Federal Insurance Office Modernization Report. And that report was originally introduced to Dodd-Frank through an amendment that I co-sponsored with another Member here on this committee.

One of the goals for a long time on insurance modernization has been this concept of trying to create more uniformity, first of all, hopefully less government price and product control, but instead more competition infused into the system.

We have sort of moved in the other direction in some ways in recent years because now we have layered regulation at the Federal Reserve on top of a tangled web of State bureaucracy and a lot of duplicative regulations.

So I think it is more important than ever that we restart this conversation on how to best serve the insurance consumer in this country. And it appears the report apparently is off the printer, and it is on to the binder.

And so my hope was that you could shed some more light on what we should expect, and will that report include specific language on recommendations to improve the uniformity of insurance regulation in the country, or even our ability to deal with international regulatory issues where we are out of compliance and so forth?

Secretary LEW. Congressman, I don't want to jump too far ahead of the report being released so that you can read it and make an evaluation of it on your own in its entirety.

But I would say this, that in the work that has been done in preparing it, there has been a lot of focus on the fact that we have a history of State regulation of insurance in this country. We have cross-cutting national concerns; finding a way to balance that even better than we have in the past is important. And that means cueing up important questions for further scrutiny.

I think that is what the report really tries to do, to focus on the issues that we need to deal with together, to answer the questions that you are posing. I don't think you will find that the report is conclusory in all of these areas.

Mr. ROYCE. We did have that previous Treasury blueprint, which did lay out recommendations for legislative action. My hope was that it would be decisive enough to at least delineate.

Secretary LEW. I think that you will find ample food for thought in the report when it comes out. And I would look forward to following up, once we can talk through the details.

Mr. ROYCE. I will look forward, Mr. Secretary, to meeting with you on that.

I wanted to jump over to Iran sanctions and a specific question I had on the $4.2 billion in oil sales over the next 6 months that the interim agreement stated that we are going to allow Iran to access.

And the other aspect of that is there is also language in the agreement where it sort of puts a pause on this concept of nations having to significantly reduce their purchases.

But going to that first point, nowhere in the law does it explicitly allow for a limited release of these funds. And so if they are going to access this $4.2 billion in currency, under what specific authority will you allow that repatriation?

How would that work in terms of the hard currency coming into the Iranian regime? Are you going to invoke a waiver to do that or—

Secretary LEW. Congressman, if I can get back to you on the specific legal authority, I would be happy to do that. Let me just address the economic issue and try to put it in a bit of perspective.

We have immobilized roughly $100 billion of Iranian assets. So, the relief of $4.2 billion is a small fraction of the assets that we have immobilized.

Mr. ROYCE. I understand that.

Secretary LEW. And even during the 6-month period of the interim agreement, there will be an additional $30 billion of foregone oil sales because of the sanctions.

Mr. ROYCE. Because of the existing sanctions.

Secretary LEW. Yes. So we are continuing to keep the pressure on Iran in a very serious way.

Mr. ROYCE. But I would—we are a little off-topic here in terms of the authority. I would like to get an answer on that. But I will say this, sanctions are largely psychological, not just legal. So when you pick up The Wall Street Journal and a headline says, "Businesses Rushing To Iran To Do Business." And you have read the articles about oil and gas queuing up because of the anticipation, of course is that once you start down this road, sanctions start to unravel.

So I am not sure that the impact is going to be as slight as you think it is. Already you see their currency rebounding, going up 30 percent. It is partly the result of reversing course.

Secretary LEW. Mr. Chairman, if I could just respond briefly.

Chairman HENSARLING. Briefly, Mr. Secretary.

Secretary LEW. Iran's economy has shrunk by 5 percent over the last year because of sanctions. The relief that we are talking about

is roughly 1 percent of their economy. There is still going to be more pain put on their economy. Whatever is driving Iran to change its views and negotiate in an interim context will continue to force them to continue to make concessions to get real relief, which is the only way they will get real relief is if they forego their nuclear program.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Washington, Mr. Heck, for 5 minutes.

Mr. HECK. Thank you, Mr. Chairman.

I am grateful to my colleague from Kentucky for having asked about the Export-Import Bank because it reminded me of a question I have been wanting to ask for some time.

As you know, Mr. Secretary, the Export-Import Bank is scheduled to expire next October 1st. As you also well know, the Export-Import Bank transferred to you $1.057 billion about 6 weeks ago in what otherwise would be called profits. And as you know, the Export-Import Bank has been independently assessed to have created by virtue of its activity approximately a quarter of a million jobs.

But my question to you, sir, is if we were to allow the Export-Import Bank to expire, the Bank which has never used one red cent of Federal Treasury or tax dollars, would that render the United States of America the only developed nation on the face of the globe without an entity something like the Export-Import Bank?

Secretary LEW. Congressman, I have to do a little research to answer whether it would be the only one. But we certainly would find ourselves facing an unlevel playing field because so many countries have programs like this.

Mr. HECK. Thank you. Now, I want to return to the subject of my opening statement.

I noted that it prompted a chuckle or two when I asked you about the role of the Department of the Treasury in providing access to banking services to otherwise legally constituted marijuana businesses in well-regulated States. In Washington State and Colorado last year, the voters approved adult use of marijuana. The Department of Justice said if the State is well-regulated, they will stand down on enforcement of criminal activity and prosecution. But these businesses still do not have access to banking services. And in Washington State, it has been forecast by fairly reputable work that it will be about a $1 billion a year sector of the economy.

This is a serious question. A billion dollars in cash floating around an economy where the businesses which otherwise legally operate cannot access depository services, can't issue checks, can't receive credit card payments. In fact, all cash. It is, in fact, sir, an open invitation—it is setting out the welcome mat to organized crime and disorganized crime.

It is setting out the welcome mat for tax avoidance. It is an open invitation to all sorts of activities which will render us and our communities and our neighborhoods less safe.

Now, the context is today, right now as we speak, the Bank Secrecy Act Advisory Group is meeting. The Financial Crimes Enforcement Network (FinCEN), a division of the Treasury, is with

them. I suspect they are talking about some guidelines to parallel the Department of Justice's efforts to allow access to bank services. My question to you, sir, is: Given all of this, do you recognize, do you understand, and will you acknowledge the threats to public safety if these businesses, otherwise legally constituted, do not have access to bank services?

Secretary LEW. Congressman, I recognize the serious challenges that are attendant to this, and obviously when there are State laws and Federal laws that are not consistent, it creates complicated decisions that have to be made. I look forward to seeing the work that comes out of these meetings that you are describing and will evaluate them when they are presented to me.

Mr. HECK. Would you commit, even in a general sense, to a timeline of action, keeping in mind that in both Colorado and Washington State, these businesses go live in a matter of a few weeks from now?

Secretary LEW. Congressman, I can't commit to a timeline until I see the results of the work that is done here, but I am happy to follow up on the matter with you.

Mr. HECK. You understand the urgency?

Secretary LEW. I understand the external timeline quite well. And when informed of the recommendations, I would be happy to follow up.

Mr. HECK. Finally, in the very brief amount of time remaining, I want to commend you for the work that your agency and you yourself personally undertook to lead the adoption of the Volcker Rule. We are all aware that there are lawsuits pending and that, according to news reports, several more are possible.

My question to you, and again a brief answer: What would be your general statement about the risk associated to the progress that you have deemed earlier here and a speech last week that the combination of this rulemaking has provided toward the objective of safety and soundness of our financial institutions and our economy if those suits, some or all of them, are successful?

Secretary LEW. Obviously, I have spoken to how important I think the rule is. I know that the foundation for it is strong. And I would think that it would be a much better thing if it just goes forward as is.

Mr. HECK. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from California, Mr. Miller, our vice chairman, for 5 minutes.

Mr. MILLER. Thank you, Mr. Chairman.

Welcome. It is good to have you here this afternoon. I know it was this morning a few minutes ago, but there has been a great deal of discussion.

Secretary LEW. It seems to happen.

[laughter]

Mr. MILLER. Pardon me?

Secretary LEW. It seems to happen—

Mr. MILLER. I know. It goes quickly.

There has been discussion regarding what would result if bank asset standards were applied to insurance companies. I know that has been touched on a little bit during the hearing today.

But during your confirmation hearing, Sarah Bloom Raskin said, "A one-size-fits-all approach is not going to work here. Insurance companies have a very different set of asset and liability structure than do banks, and to regulate them in terms of a one-size-fits-all approach is not going to be an effective form of supervision or regulation."

Do you concur and agree with this?

Secretary LEW. I tried to indicate in response to several other members of the committee that I think it is important that the regulators look at what it requires to regulate insurance companies appropriately, to look at the discretion they have within their authorities to make distinctions. And that we are going to work together on this going forward to make sure we do it right.

But the objective of the review that the Financial Stability Oversight Council made was to determine whether or not there was systemic risk. The job of tailoring the regulatory approaches is really in the hands of each of the respective supervisory regulatory agencies. And I know they are all focused on trying to do this effectively.

Mr. MILLER. Yes, but my concern is the timing. Treasury's position has been that no statutory change should be made to Dodd-Frank until implementation is complete, which is late, as far as I am concerned, yet the Federal Reserve has previously expressed a few that Section 171 of Dodd-Frank, the Collins amendment provision, constrains their ability to tailor standards to non-bank business models such as insurance. And Chairman Bernanke confirmed that when he was here—several times.

So my concern is that even though it is acknowledged that there is a problem and it won't work, the Treasury position is that we are not going to do anything until after the implementation is complete, and my position is that it is too late at that point in time. And I think it is a matter of timing. But are you willing to work to help solve this problem in your roles at Treasury and FSOC?

Secretary LEW. Congressman, I believe that each of the regulatory agencies is looking at what discretion they have within their current statutes. I don't know that they have reached final judgments in every case. I don't believe they have. I think there are some differences of view as to how much flexibility they have. And I think we will need to continue looking at this and working together if there is an issue.

Mr. MILLER. But if there is an acknowledgment—and I am not arguing with you. We have a tough job ahead. But if there is an acknowledgement that there is a problem, and yet the agency that is going to move forward with the implementation acknowledging that there is a problem, and allow that implementation to occur, saying that we will somewhat fix it later like the Feds say, it seems like we should step back and say, "We know there is a problem here, we know this is not going to work, so why don't we take care of it in a normal process instead of after the fact?"

Secretary LEW. Obviously, each of the issues that comes up under Dodd-Frank has somewhat different character. Many of the issues where we have taken the view that it is premature were issues where agencies were still in the process of making judgments and the legislation was jumping ahead of it.

Mr. MILLER. I understand that, but—

Secretary LEW. And this is one that I believe is more complicated. I think that—

Mr. MILLER. Especially for insurance companies.

Secretary LEW. I think that it is a mistake to conclude that the agencies don't have any flexibility here, because I know that there is some flexibility that they do have. And whether it is enough is the question.

I think we have to wait and see if it is enough. And I would look forward to continuing the conversation, if it turns out not to be.

Mr. MILLER. Okay. That is fair.

On September 30th, Treasury's Office of Financial Research (OFR), published a report entitled, "Asset Management and the Financial Stability," at the direction of FSOC.

In the introduction, the report states that, "the asset managers' activities differ in important ways from commercial banking and that asset managers act primarily as agents, managing assets on behalf of clients as opposed to investing on the manager's behalf. Losses are borne by and, again, accrue to clients rather than asset management firms."

Do you agree with the study that the asset management banking firms are different?

Secretary LEW. I think there is no doubt that they are different. And the question is whether or not there are systemic risks that rise to the level of designation.

I would just point out that OFR's study was not a regulatory undertaking. It was an analytic study. It is a totally separate matter to reach a determination—

Mr. MILLER. But do you see a clear line between the functions?

Secretary LEW. I think that we deal with a complex financial system where we have many different players that have different functions. They sometimes look more similar in some cases than others.

But to acknowledge that they are different seems to me to be necessary to understand each of them.

And the question as to whether or not there are issues of systemic risk has to flow from the character of what each organization is, and we can't be afraid to ask the questions.

Mr. MILLER. Thank you. I appreciate it.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the ranking member. I would like to associate myself with the opening comments of the ranking member, and I would like to pursue some of what she discussed.

By the way, I welcome you to the committee, Mr. Secretary.

I have before me, Mr. Secretary, an article entitled, "The top 25 hedge fund managers earn more than all the 500 top CEOs together."

The first paragraph reads, "The best chance of becoming super rich is to be one of the highest paid hedge fund managers or masters of the universe," as it said here.

"In 2010, the top 25 hedge fund managers combined earned roughly four times," some things bear repeating, "roughly four times as much as all of the 500 CEOs at the top of the 500 giant corporations that make up the S&P 500 Index."

And then it indicates that the average pay of these 25 hedge fund managers was $134 million in 2002, and peaked at over $1 billion in 2007.

Now, we go down to paragraph number seven, quickly. Okay. This one I find quite interesting. It talks about the poverty among managers of law firms. It reads, "The poverty in the higher ranks of law firm partners is striking. The average profit per partner was just $1.6 million in 2010."

I would call to your attention 2007, when a hedge fund manager made over $3 billion—by the way, I don't begrudge any of these people for making the money that they make—and that is a lot of money, and it is difficult to get your mind around it. That is about $400 per second. It would take a minimum-wage worker 198,000 years to make that $3 billion.

Which brings me to my question: Speculative income is taxed at a lower rate than ordinary income. Are there policies that we should review such that this type of inequality does not continue to expand, because the chasm between the poor partners at law firms who are only making $1.6 million and the super rich hedge fund managers has to be dealt with.

What policies could we implement, if you can tell me quickly, to deal with this?

Secretary LEW. Congressman, I think the President spoke at great length to this question of inequality just the other day. It is a deep, deep problem.

I don't think, frankly, the poverty of the attorneys you are talking about is what he was focusing on, but it was the challenges of minimum-wage workers who work full-time but don't break through the poverty line and can't support their families.

So I think we have to ask different questions of what can we do to provide opportunity for people to rise to the middle-class, how do we make sure people who work full-time have a middle-class income? And things like raising the minimum wage are part of that. Things like the action taken at the beginning of this year when the top tax rate went back to where it was before the tax cuts of 2001, 2003 is part of it.

But we have a lot more work to do. And we fundamentally have to focus on building a growing economy that is creating jobs that have good salaries and good middle-class opportunities.

That is where the growth in our country is going to—

Mr. GREEN. Let me just quickly intercede. And I appreciate your answer. Would you agree that ordinary income is taxed at a higher rate than speculative income?

Secretary LEW. Earned and unearned income are taxed differently. And I have over the years thought that we have to look at that as a question of whether we have it in the right place.

Raising the top rate was part of it. And, as we go through individual tax reform, we ought to be asking these kinds of questions.

Mr. GREEN. Generally speaking, and this is in a very general sense, speculative income is taxed at roughly around 15 percent. Is that a fair statement?

Secretary LEW. Correct.

Mr. GREEN. And ordinary income, which secretaries make, probably you, your ordinary income is at around 35 percent. Is that correct?

Secretary LEW. Correct.

Mr. GREEN. So these minimum-wage workers who work full time and live below the poverty line, something has to be done, Mr. Lew. And I appreciate your—

Secretary LEW. I think we have to have a tax system that encourages investment. We have to have a tax system that encourages people to work. And I think we have a lot more work to do.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from North Carolina, Mr. Pittenger, for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for your service, and for being here today.

Mr. Secretary, during the October Government shutdown, the Treasury Department and the Administration declared that there were about 90 percent of the Treasury's 15,009 IRS employees deemed to be nonessential, including nearly every staffer of the Financial Crimes Enforcement Network (FinCEN) and the Office of Foreign Asset Control (OFAC).

The Treasury put out a statement bemoaning the state of affairs. It said, "This massively reduced staffing impairs OFAC's ability to execute terrorism, financial intelligence, broader efforts to combat money laundering and illicit finance, protect the integrity of the U.S. financial system, and disrupt the financial underpinnings of our adversaries."

Let me read some statements put out by the Treasury, one on September 27th. It says that the Treasury "assures the public that in the unfortunate case of the lapse in appropriations, it will continue to provide certain critical functions, among them terrorism and financial offices will continue collection, analysis, and reporting of intelligence as well as the administration of the specially designated nationals."

A little bit later, you put out another statement that said, "The Office of Foreign Asset Control, which implements the U.S. Government's financial sanctions, has had to furlough nearly all of its staff due to the lapse in congressional funding, and it is unable to sustain its core functions."

According to this press guidance, this massively reduced staffing for TFI offices "undermines the efforts to combat money laundering and illicit finance, protect the integrity of the U.S. financial system, and disrupt the financial underpinnings of our adversaries."

Mr. Secretary, the Treasury kept top political appointees on the job during this time and declared them to be essential. At the same time, they furloughed almost every professional who is tasked with stopping the funding of terror and stopping people doing business with Iran's rogue regime.

By that decision, those jobs were deemed nonessential. That troubles me deeply and leads to a few questions.

First, how is preventing a terror attack on the United States and preventing Iran from developing a nuclear weapon nonessential?

And what sort of jobs were more important than that?

Secretary LEW. Congressman, going back to October, I believed deeply then, and I believe deeply now, that there were many bad consequences that came from the fact that there was that kind of brinksmanship, and important things weren't happening because the Government shut down.

So, that is just a consequence of shutting down the government.

There were guidelines put out by the Office of Management and Budget that we adhered to in making the judgments. There are categories of employees, who, because of their status, fall on one side of the line or the other.

I can tell you that we brought back the staff who were needed to support the negotiations that were going on with regard to Iran. We had the capacity to do that.

But there are consequences to shutting down the government. And you can't keep the whole government open when the government shuts down.

So—

Mr. PITTENGER. Mr. Secretary, let me ask you this, though. You made the statement on September the 27th in the lapse of appropriations that these important functions related to the Department regarding collecting analysis and reporting intelligence would continue in the midst of the shutdown.

What happened between the time of that statement and the subsequent statement that says that you would have massively reduced staffing?

Secretary LEW. Congressman, during the days of the shutdown, at the beginning of the shutdown, there was not even a flow of intelligence information coming in because our intelligence operation was in the same position that our threat-financing—

Mr. PITTENGER. Mr. Secretary, with all due respect, it is clear that you kept political appointees intact. It is clear that you eliminated jobs of professionals whose assignment it is to protect this country. And I think it is not clear to the American people why you would make that type of decision.

Secretary LEW. Congressman, we followed the guidelines of the Office of Management and Budget. We followed the rules and the law regarding these determinations. And the problem, when you have the kind of confrontation that shuts down the government—

Mr. PITTENGER. Mr. Secretary, my time is up. But what I will say is you have two different statements here, one, that you would continue to fund it and and that later you did not.

Chairman HENSARLING. The time of the gentleman has expired. The Chair announces to all Members that under the agreed-upon schedule with the Secretary, we have an opportunity for 2 more Members to question him.

The Chair now recognizes the gentleman from California, Mr. Sherman, for 5 minutes.

Mr. SHERMAN. Thank you.

Secretary Lew, I want to commend you and Secretary Cohen for the effective and hard work to enforce existing sanctions, laws, particularly your new announcement today.

Secretary Kerry testified before the Foreign Affairs Committee yesterday that we were going to move forward in force, and you have proved him right.

The Chair made an opening statement focusing on bailouts. We have worked hard together, the Chair and I and many others, to prevent statutes from providing pre-existing bailout authority.

But I would point out that we didn't have pre-existing bailout authority in 2008. That is why we changed the statute. We adopted TARP. He and I opposed that at the time. But I hope he will join me in co-sponsoring the bill to say that too-big-to-fail is too-big-to-exist.

Because I will tell you now, if Goldman Sachs is going under, you and I may be working against a bailout. Who knows? Maybe we won't be. But in any case, I don't think we are going to have a different result.

Too-big-to-fail is too-big-to-exist. And I know the Secretary, along with the other regulators, has the authority under Dodd-Frank to break up the too-big-to-fail, but I am not sure he is going to do it until you and I pass a law requiring it.

Mrs. Maloney made an excellent opening statement focusing on the need for a stable housing finance system. I would add that the higher conforming loan limit that we have in her city and mine and 10 other high-cost areas actually makes money for Fannie Mae and Freddie Mac and thus for the Federal Government.

And we would increase the national debt if we cut that back.

Mr. Campbell focused on the $63 billion change of status at the IMF. He pointed out a number of things Congress would want to see on any bill authorizing that.

I will add one more, speaking only for myself, and that is there should be a requirement that the IMF, prior to us dealing with that $63 billion, suspend Iran and that Iran be ineligible for any transactions with the IMF until such time as by an 80 percent majority the IMF board determined that they had, indeed, abandoned their nuclear weapons program.

Mr. Green pointed out the focus on the unfairness in tax rates. Even if you believe—and I will point out the capital gains rate is, in effect, 23.8 percent, not quite as bad as 15 percent, but still, less than ordinary working people are paying.

And even if you believe that we should have a lower rate for money—profits earned on capital risk, the hedge fund managers are able to take their earned income and treat it as capital gain unless they make it based in the Cayman Islands, et cetera, and it is a 0 percent rate.

Speaking of international taxation, Mr. Secretary, the last time you were here, in May, in my questions I focused on the California system of apportionment for international taxation, known as the California System. And you promised that you would look at it. I won't put you on the spot here and ask for a full discussion.

But I wonder if you could commit that we will talk about that, to cut the Gordian knot and eliminate the transaction-by-transaction approach and instead say that if a company is 50 percent-

based in the United States, we ought to tax 50 percent of its worldwide income.

So, can I count on you for further discussions on that?

Secretary LEW. I am happy to continue the conversation.

Mr. SHERMAN. And then I would also add—and this is a smaller fix—that we ought to disallow any deduction for payment for the use of intellectual property if that intellectual property was developed in a high-cost—in a high-tax country like the United States but has now been transferred to a low-cost country, such as the Cayman Islands.

Your Department and you personally issue a report on currency manipulation. The National Association of Manufacturers says the renminbi is undervalued by almost 40 percent. And frankly, if we were able to prevent that undervaluation, you would be here testifying about the labor shortage in the United States.

Why have you not reported to us that China is indeed manipulating its currency?

Secretary LEW. Congressman, I have addressed the issue of exchange rates a number of times. I believe we have pushed very hard on China to move towards a market exchange rate. They have appreciated substantially.

Mr. SHERMAN. Tariffs would push them a lot harder.

Secretary LEW. We are going to continue to push them.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Minnesota, Mrs. Bachmann, for 5 minutes.

Mrs. BACHMANN. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here.

I understand that today the Treasury Department made additional designations regarding sanctions of companies, rogue companies, front organizations that were dealing with Iran. That was a good move. I think that is a positive move that the Treasury Department made.

But it seems that additional sanctions against Iran would be exactly what is needed now to let Iran know that the United States would do whatever it takes, including a military option, to stop Iran from reaching its stated goal of ultimately having a nuclear program.

And what I am wondering—Congress was not aware that the Administration was undertaking secret negotiations with Iran regarding sanctions relief with its nuclear program for that period of time. Were you aware of these secret negotiations with Iran?

Secretary LEW. Congresswoman, I have been aware of many things going on with regard to Iran, but I don't think this is an appropriate place to discuss that topic.

Mrs. BACHMANN. The reason why I ask that is because a report came out on November 8th that, in June, when Mr. Rouhani was elected president of Iran, that at that time it appeared, from a review of Treasury notices, that there was a distinct cutting back on the number of designations that were being made against companies.

That designation, again, was done today. And I—one report said that in the 6 weeks prior to the Iranian elections in June, Treasury

issued 7 notices of designations of sanctions violators that included more than 100 new people, companies, aircraft, and sea vessels.

Since June 14th when Hassan Rouhani was elected, the Treasury Department only issued 2 designation notices that identified 6 people and 4 companies as violating the Iran sanctions.

So it seems like two things have gone on. While the secret negotiations were going on between the United States and Iran, it seems to me that at the worst possible time in the negotiations, beginning last June, the United States intentionally chose to weaken our hand and our negotiating position with Iran at a crucial time—sending a signal of weakness, sending a signal of sanctions reductions, and at the same time, it appears that the Obama Administration was strengthening Iran's hand in those negotiations.

It also appears that two things were happening with the Obama Administration: cutting back on the number of designations; and making it very clear that they were adamantly opposed to new sanctions. Both of those would send the signal to Iran that we mean business that they will never have a nuclear weapon. And it seems that the exact wrong tack was taken from the Treasury Department. And it seems that it is Treasury more than any other agency that sent the signal to Iran that they are going to prevail—

Secretary LEW. Congresswoman—

Mrs. BACHMANN. —in the negotiations rather than the United States.

Secretary LEW. —I disagree with that characterization almost completely. I think that this Administration has pushed on an international basis for the toughest sanctions in history, which is the only reason that Iran is looking to make concessions and the only reason there is any chance that there will be a peaceful resolution of this.

I think Treasury's enforcement of sanctions has been consistent. The action taken today, the action taken yesterday—a negotiated settlement with the Royal Bank of Scotland, these are matters that take months to develop. And we are working every day. And I have said to hundreds of CEOs: Make no mistake about it, enforcement will continue. We are not taking our eye off of the ball at all, and we will not.

Mrs. BACHMANN. There are a number of companies that are essentially front organizations for Iran to have—front organizations to help the regime to be able to continue to proliferate and do the work that they are doing. It seems to me that the bottom line with Iran is, will they have the right to enrich uranium? It doesn't seem to me that when we are pulling back on the number of designations from June, essentially to this week, that we have sent a signal of strength. It appears that we have sent a signal that America is weak, America is in decline. America is pulling back militarily, and we are weakening ourselves economically.

Secretary LEW. I think if you look at Iran's economy, they are feeling the pain of these sanctions every day. They are feeling the 5 percent decline in GDP, the 40 percent inflation, the devaluation of the rial. They are seeing all kinds of pain. And that is the only reason—

Mrs. BACHMANN. Which was exactly why we got them to the negotiating table. So at the time when we finally have them talking,

the Obama Administration decided to strengthen their hand and weaken our own.

I yield back. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentlelady has expired. We will end questioning at this time.

Secretary Lew, we appreciate your testimony today. However, a number of questions do remain unanswered, as do a number of written inquiries from Members on both sides of the aisle. So thus, early in the new year, we will take the liberty of inviting you back in hopes that these questions can be addressed. We trust you will accept our invitation.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing stands adjourned.

[Whereupon, at 12:44 p.m., the hearing was adjourned.]

A P P E N D I X

December 12, 2013

HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

AL GREEN
9TH CONGRESSIONAL DISTRICT
HOUSTON, TEXAS

Statement for Hearing Record
December 12, 2013

On December 12, 2013, during the Full Committee hearing in the House Committee on Financial Services, I indicated that many high-income individuals who earn their wealth by way of investments, have their passive income taxed at a lower rate than the earned income that most middle-class Americans earn. I referenced income figures that were earned prior to 2013, and for that reason, I intended to state that for many of the top earners in the country at that time, the capital gains tax rate stood at 15 percent and the earned income tax rate 35 percent. Since the passage of the Affordable Care Act and the "fiscal cliff" negotiated deal, these earners' passive and earned income tax rates would be at 23.8 percent and 39.6 percent respectively.

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Testimony of Jacob J. Lew, Secretary of the Treasury, before the House Financial Services Committee, United States House of Representatives
December 12, 2013

Introduction

Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you for the opportunity to testify today.

There are signs that economic conditions are improving in most advanced economies, led by the United States. Despite political headwinds, our economy has been steadily growing. Over the past 45 months, our businesses have created more than 8 million jobs. While we are moving in the right direction, we have more to do to create jobs, accelerate growth and put our economy on a firmer foundation.

Progress at home in part depends on the state of a global economy that continues to face many challenges. The long recession in the euro area seems to be ending, although unemployment remains very high in many countries. Having made significant progress on achieving financial stability, Europe is now in a position to place greater priority on boosting demand and employment. In Japan, the central bank and parliament have taken forceful action to begin ending deflation, but to achieve sustained success Japan needs to undertake structural reforms to strengthen domestic demand growth. Recently, some emerging markets have slowed as post-crisis stimulus wanes. There has long been recognition that macroeconomic policy in the United States and other advanced economies will eventually return to normal as growth strengthens. Emerging markets need to make reforms that increase their resilience and address structural constraints to growth. China's new leadership recently announced bold commitments to reform. The pace and character of these reforms will shape China's economic transition toward domestic consumption led growth, and away from resource-intensive export growth.

Part of my job is to work to create the most favorable external environment for U.S. jobs and businesses. The international financial institutions – the International Monetary Fund (IMF) and multilateral development banks (MDBs) – are indispensable partners in this effort and it is imperative that we preserve our leadership in these institutions. Our investments in these institutions foster a more stable and vibrant global economy, which is critical to a growing U.S. economy. That is why it is so important that Congress acts to approve IMF quota and governance reform. At the G-20 Seoul Summit in 2010, we secured reforms that preserve the U.S. veto without increasing the U.S. financial commitment to the IMF. To implement these important reforms, the Administration has provided draft legislation to reduce U.S. participation in the New Arrangements to Borrow (NAB) and simultaneously increase the size of the U.S. quota in the IMF. This proposal will advance vital institutional reforms to modernize the IMF and preserve America's leadership role in the Fund.

The IMF anchors global financial stability

Since it was founded nearly 70 years ago, the IMF has been instrumental in securing U.S. economic interests by helping to maintain and restore economic and financial stability abroad. In response to the 2008-2009 global financial crises, the IMF once again was the first responder. Through its lending programs and policy advice, the IMF played a forceful role in mitigating the impact of the global crisis on its member countries to help prevent contagion. At the G-20 Summit in April 2009, the G-20 leaders mobilized $750 billion in increased resources for the IMF that stemmed capital outflows from emerging markets and stabilized the international financial system.

Notably, the IMF has played a critical role in helping Europe restore financial stability. While Europe has shouldered the lion's share of the financial support to EU member countries, the IMF has provided much-needed expertise and credibility. This has yielded tangible results, even though challenges remain. The IMF's role in stabilizing the economies in Europe has helped limit the negative effects of the crisis on the global economy and on the United States. As you know, the United States has an important stake in Europe's recovery and strength. For example, the European Union accounts for more than 20 percent of U.S. exports. Furthermore, more than 60 percent of foreign direct investment in the United States comes from EU companies, and these investments create jobs for American workers. Further, greater stability in financial markets in Europe helps to reduce the risks of volatility in U.S. markets, safeguarding American household savings and retirement accounts.

Although Europe remains our major trading partner, U.S. companies are increasingly looking to export their products to emerging markets. Because growth has slowed in some emerging markets, the IMF is advising governments to improve their policy frameworks and build greater resilience, including through exchange rate flexibility, supportive monetary policies consistent with inflation dynamics, and strengthened regulatory and supervisory policies.

The IMF is also an important partner for the United States as we seek to strengthen our national security in a rapidly changing world. Across the Middle East and North Africa, the IMF is supporting countries undergoing difficult economic transitions. The IMF has provided policy advice and technical assistance to countries in the region, along with financial support to Jordan, Morocco, and Tunisia. This work is far from done.

Our investment in the IMF is safe and smart. When the IMF lends, it does so subject to appropriate conditions and with safeguards to assure it is repaid. And its repayment record is outstanding. When the IMF draws on U.S. resources, we earn interest. The United States is exposed to the IMF's balance sheet – not to the borrowing countries – and the IMF's balance sheet is rock solid. The IMF is regarded as the world's preferred creditor, meaning that the IMF's member countries acknowledge and agree that it gets repaid first. And the IMF leverages U.S. resources – every dollar of financing from the United States is matched with more than four more from other countries around the globe.

Under the international agreement to implement the 2010 quota reforms, once Congress acts, the U.S. quota in the IMF will increase by approximately $63 billion, and the U.S. commitment to

the NAB will decrease by an equal amount. Our overall commitment to the IMF will thus remain unchanged.

The 2010 quota and governance reforms are a good deal for the United States and the global economy. Without these reforms, we risk a loss of U.S. influence in the IMF as other countries seek to enhance their stature outside of the IMF's quota-based financial and governance structures. The 2010 agreement also facilitates changes in the composition of the IMF Executive Board, while preserving the U.S. board seat and veto power. That is why it is imperative that Congress act on IMF quota and governance reform as quickly as possible.

Today, U.S. approval is the only remaining step needed for these important reforms to go into effect. I look forward to working with you and your colleagues to get our proposal enacted quickly.

Raising financial regulation standards globally

Not only did the global financial crisis remind us why we need a strong IMF, it underscored the need for strengthening financial sector regulation across the globe. In particular, the crisis highlighted the need for building much stronger and more resilient financial institutions, greater market transparency, and a high quality level playing field across borders that protects against regulatory gaps, arbitrage, and a race to the bottom.

Building on the Dodd-Frank Act and in order to ensure that the world's standards were as high as our own, the United States led the G-20 to upgrade the Financial Stability Board's oversight role in financial regulation and to establish an ambitious agenda for international financial regulatory reform.

Due to the efforts of U.S. leadership, the G-20, and the Financial Stability Board, financial institutions are now well on their way to building significantly stronger, high-quality capital and liquidity buffers through Basel III. Leverage has been reduced. The CFTC's efforts have in considerable parts tackled the problem of an opaque OTC derivatives market. The FDIC is playing a leading global role in promoting international progress to address cross border resolution. At the same time, shadow banking is being addressed, the perimeter of regulation expanded, and systemically significant institutions are being designated for heightened supervision. Through the IMF and the World Bank's Financial Sector Assessment Program, as well as the FSB peer review process, the United States is working to promote consistent implementation of high-quality regulations across the globe to keep risk from migrating where regulation is weak.

While many of the core reforms of Dodd-Frank are largely completed at home, we have not yet completed the global regulatory race to the top. In 2014, the United States intends to focus our financial regulatory reform efforts in the G-20 and through the FSB on consistent international implementation. We will focus on promoting vigorous implementation of Basel III, ensuring that risk weighted assets are assessed consistently across borders, and that Basel III's high quality capital standard is met. We will encourage swift implementation of convergent clearing, trading, and reporting requirements for OTC derivatives markets. We will also focus on

strengthening arrangements to facilitate the cross-border resolution of a large, complex financial institution, building on the FDIC's work. And we will work with our international partners to develop and implement a roadmap for strengthened and comprehensive oversight and regulation in order to address the systemic risks posed by shadow banking.

The multilateral development banks advance U.S. interests

Finally, let me turn to the role of the MDBs. At a time when the United States is striving to shape the global economy, the MDBs are important partners in supporting our national security objectives, promoting economic growth, and addressing global challenges. These institutions leverage our resources and multiply our impact by ensuring that other nations are contributing their share.

For example, in Afghanistan and Pakistan, the MDBs are working with local authorities to reduce poverty and build stronger institutions. In emerging economies, the MDBs are promoting economic reforms consistent with our values and interests. Take for example, the World Bank's annual Doing Business Report. This flagship publication, which ranks countries based on the strength of their investment climates, has spurred many countries to improve laws and regulations to attract private capital.

The MDBs are making long-term investments to help foster the next generation of emerging markets. Fast growing African countries present new opportunities for U.S. businesses. For example, we have worked successfully to secure support from the World Bank and the African Development Bank for President Obama's Power Africa Initiative, which aims to bring energy to half a billion people in Sub-Saharan Africa. The MDBs are playing a vital role in this effort, employing their resources and technical expertise to promote the difficult, yet crucial, reforms needed to encourage private sector investment in Africa's energy sector.

We rely on the MDBs to be global standard setters. For example, we are successfully raising the bar to minimize social and environmental risks associated with large infrastructure projects so that development is sustainable and broadly shared.

The MDBs are also central to our efforts to combat major global challenges that require multi-country solutions, including climate change and food insecurity. It is important to recognize that the gains in development over the last several decades are increasingly at risk due to the impacts of climate change, particularly in many of the poorest countries in the world. The Climate Investment Funds help those countries, where climate change is expected to have a disproportionate impact, become more resilient. Examples include a coastal embankment improvement project in Bangladesh and water resources mobilization in Niger. The Bangladesh project is helping reduce disaster risk for more than 700,000 people. The Niger project is helping bring water resources to individuals and farmers, which also is improving the lives of more than 700,000 people.

In 2009, President Obama committed U.S. support to confront the urgent challenge that 842 million people around the world face every day — the injustice of chronic hunger and malnutrition and the need for long-term food security. Treasury has successfully worked with

the World Bank to mobilize more than $1 billion for the Global Agriculture and Food Security Program – which is the multilateral component of the U.S. government's Feed the Future Initiative – to support agricultural investments that reduce hunger and poverty in the poorest countries with real results. In Sierra Leone, for example, GAFSP financing has underwritten the delivery of improved extension services to farmers to help them boost yields in key staple crops. GAFSP has also financed the rehabilitation of 250 kilometers of rural roads in Togo to better connect farmers to local markets and has provided 18,000 farmers with better access to improved seed varieties and fertilizer.

Finally, this year, the United States will be making new commitments to the International Development Association of the World Bank (IDA), and the African Development Fund. These are the two largest sources of finances for the world's poorest countries, and their impact is enormous. For IDA, this is likely to be the last replenishment before countries like India graduate. With support from Congress, our investments have delivered real results on the ground. For example, IDA has helped 1.4 million people in Senegal to gain access to clean water and over 700,000 people Sierra Leone to have access to health care facilities. Once again, we have an opportunity to exert our leadership at these institutions and at the same time advance our moral commitment to ending global poverty and building a safer world.

Conclusion

Chairman Hensarling, Ranking Member Waters, and members of the committee: the IMF, the World Bank, and the MDBs have proven to be effective pillars of the international financial architecture. With U.S. leadership and backing from the Administration and Congress, I am confident they will continue to protect and support America's vital economic and national interests, today and into the future.

1 Mr. Bachus. Thank you, Mr. Chairman, for your
2 courtesy.
3 Mr. Chairman, We are dealing with the Volcker rule
4 here, and I do believe that two things need to be said.
5 Chairman Frank has stressed on a number of occasions
6 the importance of international coordination on financial
7 regulatory matters so that American firms do not have or any
8 firm does not have incentives to seek out other countries
9 offering the more permissive regulatory regimes, and so that
10 U.S. firms do not operate at a competitive disadvantage vis-
11 a-vis their European or Asian counterparts. And as we all
12 know, not only is Europe--we compete with Europe, but
13 increasingly we are competing with Asia. In fact, the
14 largest bank in the world is in China, and they are today
15 one of our more aggressive competitors.
16 I would ask the Chairman, for instance, if he is aware
17 of any other country that has committed to adopting the
18 Volcker rule that would be imposed on U.S. firms if this
19 bill went into effect.
20 And let me say this in answering that question. In
21 February, the European financial ministers indicated that
22 the Volcker rule restrictions would actually violate
23 European Union universal banking laws. So because Europe
24 and much of the rest of the world is unlikely to ban banking
25 companies from proprietary trading, hedge fund, or private

1 equity activities, imposing the ban on the U.S.
2 institutions, I think, is going to amount to unilateral
3 disarmament. Large corporate clients who depend on our U.S.
4 banks' ability to provide a full range of financial products
5 and services, underwriting, trading, private equity, asset
6 management, would likely turn to non-U.S. institutions if
7 Congress bans banks from providing such services.
8 In fact, and the last thing I will say about this being
9 a competitive issue, is to quote from Chairman Chris Dodd.
10 Chairman Dodd just on February 2, just maybe three or four
11 months ago, said, "For us to adopt this rule without the
12 rest of the international community, that makes this
13 unworkable." Now, since that time, the European Union has
14 indicated that they will not go along with this rule as far
15 as I understand. Since Chairman Dodd made those comments,
16 it has really become apparent that there is no international
17 consensus supporting these reforms and the U.S. will be
18 largely going it alone.
19 Unilateral adoption of the Volcker rule by the U.S.
20 will only undermine our competitive advantage, in my
21 opinion, and therefore is going to undermine the
22 profitability of financial institutions. If it does that,
23 it raises the cost of capital to American businesses,
24 consumers, and home buyers, and it will slow economic
25 activity and job creation. And I think we have all stressed

1 we need to get the economy going.

2 And let me close by saying this as a secondary question

3 that I would ask. This talks about proprietary trading.

4 Well, September 24, 2009, here is what Paul Volcker said

5 about this. He said, "I don't think you can write a bright

6 line law to say what is proprietary and what isn't." Now,

7 that is the architect of the Volcker rule. If he can't

8 define proprietary trading, how are the regulators supposed

9 to do it?

10 I will close by saying what Secretary Geithner said

11 last September before a Congressional oversight panel. Our

12 Treasury Secretary said, in response to a question about

13 proprietary trading, "Most of the losses that were material

14 for the weak institutions and the strong relative to capital

15 did not come from proprietary trading activity. They came

16 overwhelmingly from what I think can fairly be described as

17 classic extensions of credit."

18 Now, Secretary Geithner said the problem didn't come

19 from proprietary trading. If a ban on proprietary trading

20 hurts our competitiveness, then my question is, why are we

21 doing it and taking a risk--

22 Mr. Frank. The gentleman's time--

23 Mr. Bachus. Thank you.

24 Mr. Frank. The gentleman's time has expired.

25 The gentleman from California had asked for time, so I

1 am going to recognize myself for five minutes, if there is
2 unanimous consent, and then the gentleman from California.
3 I appreciate the gentleman from Alabama doing this. We
4 now have illustrated--we tend to get, as we debate on
5 smaller issues, like subparagraph C of the amendment, but
6 here is the fundamental issue that divides the parties,
7 probably, to some extent. Is the current regulatory
8 structure in the law adequate going forward, or do we need
9 to empower regulators--and there is nothing automatic about
10 how they do it--with more tools.
11 And in particular, we have the gentleman from Alabama
12 just being very critical of the Volcker rule, and I agree
13 with Mr. Volcker, can't adequately describe it. Mr.
14 Volcker, in the partial quote, said that, but he said much
15 more in the quote and I think people should give the full
16 quote. He did say that he thought people would have no
17 trouble identifying it. He said he couldn't do it by line.
18 But if we were not to have rules and laws that couldn't have
19 a bright line, this would be an anarchic society. You have
20 judgment in the regulators. So that is an unfair, in my
21 judgment, denigration of Paul Volcker and the service of
22 deregulation, of non-regulation.
23 And we have here outlined by the Ranking Member a
24 fundamental difference between the Democratic and Republican
25 approaches. Now, we wish things weren't partisan, but to

1 some extent, they are. We believe that there has been a
2 lack of regulation of the new developments in the financial
3 area, that, in fact, banks have gotten far beyond the
4 business of lending, and by the way, one advantage, it seems
5 to me, of the Volcker rule is that banks, as they can make
6 less money doing other things, will be more likely to get
7 into the lending business again in ways that they should
8 have been.
9 But that is the question. Should there be any
10 restraint on banks engaging those insured depository
11 institutions with all manner of other things? My own view
12 is this. The financial institutions were set up to be the
13 intermediaries between people with capital to invest and
14 those who would put it to productive use. To a great extent
15 in our financial industry, the means have become the end,
16 and what the Volcker rule says is, let us make this
17 distinction. They should not be doing these things as ends
18 in themselves, purely as profit centers. We set them up
19 with deposit insurance and access to the discount window so
20 they could be the intermediaries.
21 As to the rest of the world, we are planning to get
22 this bill done in time so that it can be taken to the G-20,
23 and there are serious conversations going on with the rest
24 of the world. I was in the World Economic Forum in
25 Switzerland talking about this with others, with people from

1 the Financial Stability Board, Mario Draghi, or Turner from
2 the Financial Services Administration. There is a great
3 deal of coordination going on. So I think, frankly, the
4 rest of the world is being used as a kind of place to divert
5 attention.
6 The argument that came from the gentleman from Alabama
7 and others who agree with him is, let us not regulate them
8 any more. Let us leave them to do as they have been doing.
9 Let us not impose these restraints, because I do think the
10 notion about whether--in fact, if it were being done
11 universally, it would not please him.
12 Paul Volcker is a great student of this situation. We
13 anticipated this with the amendment from Mr. Kanjorski. We
14 were there before the administration. We are now there
15 alongside of them. And we believe, contrary to the
16 gentleman from Alabama and his colleagues, that tough action
17 is taken to tell the banks, the large banks, obviously, that
18 they cannot continue to do business as they were doing, that
19 they have to get back in the business of accumulating
20 capital and making it available through loans to private
21 parties, that financial activities that they do on their
22 own, whether they are derivatives or swap dealing or
23 anything else, that those are not their primary purpose.
24 And so I appreciate the gentleman doing this because we
25 sometimes pass over the fundamental issues and get into

1 small ones. There was a fundamental party divide here on
2 whether or not further regulation is needed. The Volcker
3 rule embodies what many of us believe is important, and I
4 would just say, and I am going to now recognize the
5 gentleman from California or other members, we don't have
6 the Volcker rule in here. We had a prefiguring of it from
7 the gentleman from Pennsylvania. The Senate, I believe, is
8 going to send us back a version of that, perhaps some form
9 of the Merkley-Levin, and we will be debating that later
10 today. So there will be a full-floated debate, as there
11 should be, on whether or not the status quo in this area of
12 bank regulation is appropriate or whether or not we should
13 move forward in this way.
14 The gentleman from Alabama is--
15 Mr. Bachus. Mr. Chairman, you have--
16 Mr. Frank. I am sorry, the gentleman from California.
17 Mr. Bachus. Would you--
18 Mr. Frank. I would say to my friend from Alabama, we
19 agreed to this extra time. We will debate it later. We
20 have to move this on. I now yield to the gentleman from
21 California--
22 Mr. Bachus. Well, Mr. Chairman, I would like 30
23 seconds to respond to your mischaracterization of what I
24 said.
25 Mr. Frank. The gentleman is recognized for--I will

1 give myself another 45 seconds and yield 30 of it to the
2 gentleman.
3 Mr. Bachus. Thank you, Mr. Chairman. Mr. Chairman, I
4 did not talk about anything but two things. I did not talk
5 about that we didn't need to change the rules, that we
6 didn't need reform. I said that I feared this would affect
7 competitiveness if the rest of the world did not go by. You
8 have acknowledged that argument. You said serious
9 discussions are underway. Senator Dodd has the same
10 concerns.
11 And the second thing I said is we have to be careful
12 how we define proprietary trading. You used that--

SCOTT GARRETT
5TH DISTRICT, NEW JERSEY

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CHAIRMAN
CAPITAL MARKETS AND
GOVERNMENT SPONSORED ENTERPRISES
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June 7, 2013

The Honorable Jacob J. Lew
Secretary of the Treasury
United States Department of the Treasury
Washington, D.C. 20220

Dear Secretary Lew:

I am writing with regard to the inappropriate and unfair targeting by the Internal Revenue Service (IRS) of certain conservative-leaning political groups. As you are aware, the revelation that the IRS politically targeted taxpayers has drawn outrage across the nation. While our system of government necessarily means Americans divide along political lines, we are united in our belief that the country's tax collector should carry out its mission with both integrity and fairness and without regard to political affiliation.

In your roles as Secretary of Treasury and White House Chief of Staff, I am writing for clarification as to your knowledge, if any, of the IRS' inappropriate targeting of tax-exempt conservative groups, which began sometime in March 2010.

First, during an appearance before the House Financial Services Committee, you testified that you first became aware of the "fact of an investigation" regarding the targeting of specific groups on March 15, 2013. Does this date coincide with the first time that you became aware of the IRS' targeting of tax-exempt groups—including rumors of targeting—independent of your knowledge of the inspector general's investigation?

Second, it has been reported that former IRS Commissioner Douglas Shulman visited the White House on numerous occasions between October 2009 and December 2012. In your role as White House Chief of Staff, did you attend any meetings with then-Commissioner Shulman and was anything discussed relating to the IRS' targeting of conservative-leaning organizations and their tax-exempt applications? Specifically, as Chief of Staff, were you involved or did you have any knowledge of rumors of conservative groups that were being targeted, media reports highlighting inspector general investigations related to targeting, or any IRS personnel involved in potentially inappropriate targeting of conservative groups?

I thank you in advance for your timely response.

Sincerely,

Scott Garrett

SCOTT GARRETT
Member of Congress

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 12, 2013

The Honorable Scott Garrett
U.S. House of Representatives
Washington, DC 20515

Dear Representative Garrett:

I write in response to your June 7 letter to the Department of the Treasury regarding the Treasury Inspector General for Tax Administration's (TIGTA) May 14 report. Treasury believes that the tax code must be administered to the highest of standards and without bias. In addition, we are committed to working with Congress.

With respect to the specific questions you raise, Secretary Lew addressed these issues in his testimony before the Senate Banking, Housing, and Urban Affairs Committee on May 21, 2013, and the House Financial Services Committee on May 22, 2013. Secretary Lew testified that he first became aware that there was an audit underway on March 15, 2013, when he had a meeting with the TIGTA, J. Russell George. That meeting took place during Secretary Lew's early weeks at the Treasury Department, and was one of a number of initial introductory meetings. Mr. George raised several items during that meeting. He mentioned to Secretary Lew that there was an audit of 501(c)(4) activity, and told Secretary Lew that there might be troubling findings, but did not describe them in detail. As Secretary Lew also testified, the practice at Treasury is that when notified of an Inspector General audit or investigation, Treasury allows the Inspector General to do its work and does not interfere with the process. In addition, Secretary Lew testified that he was not aware—either as White House Chief of Staff or as Secretary of the Treasury—of the facts or findings in the audit report before it became public.

Secretary Lew also testified that he offered his support to Mr. George and committed to take action to fix problems that Mr. George were to find. Within twenty-four hours of receiving the TIGTA May 14 report, Secretary Lew asked for and accepted the resignation of the Acting Commissioner of the IRS. The day after that, the President appointed Daniel Werfel to lead the IRS and charged him with holding accountable anyone responsible for improper conduct. Secretary Lew then met with Mr. Werfel and directed him to implement, fully and promptly, all nine of the recommendations in the TIGTA May 14 report. Secretary Lew also directed that Mr. Werfel report about progress made in three areas: (1) ensuring staff that acted inappropriately are held accountable, (2) examining and correcting any failures in the system, and (3) taking a forward-looking systemic view of the agency's organization.

In accordance with this directive, last week Mr. Werfel released a detailed written report to Secretary Lew. Mr. Werfel has taken quick action to implement the recommendations included in the TIGTA May 14 report. The IRS has new leadership at all five levels of management responsible for tax-exempt applications and Mr. Werfel has created a new Accountability Review Board to help sort through the evidence and produce recommendations for personnel action on a case-by-case basis. In addition, Mr. Werfel has taken action to address the backlog of applicants waiting for tax exempt status.

Mr. Werfel's review found no evidence of intentional wrongdoing at the IRS. In addition, Mr. Werfel's review found no evidence of involvement from anyone outside of the IRS in the behavior described in the TIGTA May 14 report. Finally, Mr. Werfel's review found no evidence of the use of inappropriate criteria in other IRS business unit operations. In sum, Treasury believes that, while more work remains, the assessments and actions outlined in Mr. Werfel's report have charted a path that will improve performance and accountability at the IRS.

If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Alastair Fitzpayne

Alastair M. Fitzpayne
Assistant Secretary for Legislative Affairs

JEB HENSARLING, TX , CHAIRMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

June 7, 2013

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

I write today to obtain additional information about the analyses relied upon by the Justice Department and other federal authorities in making prosecutorial and/or enforcement decisions in cases involving large, complex financial institutions.

As you know, on December 28, 2012, pursuant to the Freedom of Information Act (P.L. 89-487) ("FOIA"), the advocacy group Public Citizen requested that the Treasury Department disclose certain records related to the Justice Department's investigation of HSBC Holdings plc and HSBC Bank USA, N.A. (collectively, "HSBC") for violations of federal anti-money laundering laws and related offenses. Specifically, Public Citizen requested that the Treasury Department produce records related to whether the Justice Department declined to prosecute HSBC because of the adverse economic effects that could flow from a conviction. Recently, the Treasury Department produced certain records in partial response to Public Citizen's FOIA request.

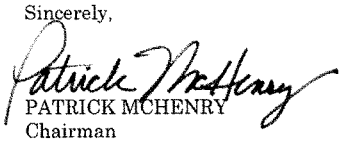
The records produced by the Treasury Department may be responsive to this Subcommittee's March 8, 2013 letter to you and Attorney General Holder. That letter requested, among other things, records related to the economic impact of prosecutions or other actions in matters in which large financial institutions have been or may be parties, as well as records related to any request that the Justice Department consider the economic consequences of its prosecutive decisions in matters involving such entities. In particular, though heavily redacted, the records released to Public Citizen show that Treasury Department officials understood the nature and seriousness of the criminal activity allegedly committed by HSBC and another financial institution, Standard Chartered, and that these officials were apprised of efforts to assess penalties commensurate with the institutions' alleged conduct. At a minimum, to the extent that the released records reflect a discussion of the appropriateness of these penalties, they are probative of whether federal officials resolved the HSBC and Standard Chartered matters based in whole or in part on their understanding of potential economic and other collateral consequences. Accordingly, please produce, without redactions:

(1) all records previously produced by the Treasury Department to Public Citizen pursuant to Public Citizen's December 28, 2012 FOIA request letter; and

(2) all other records responsive to Public Citizen's December 28, 2012 FOIA request letter.

Please work with the Financial Services Committee staff to provide the requested records as soon as practicable but not later than June 21, 2013. We appreciate your prompt attention to this matter. If you have questions regarding this request, please contact Joseph Clark of the Committee staff at (202) 225-7502.

Sincerely,



PATRICK MCHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Hon. Al Green, Ranking Member

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 26, 2013

The Honorable Patrick McHenry
Chairman
Subcommittee on Oversight and Investigations
Committee on Financial Services
U.S. House of Representative
Washington, DC 20515

Dear Chairman McHenry:

I write in response to your recent letter regarding criminal cases involving large, complex financial institutions and our production to Public Citizen pursuant to its request under the Freedom of Information Act (FOIA). We appreciate your interest in these important issues.

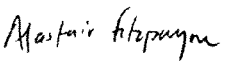
The Department of the Treasury strongly supports vigorous enforcement of the law. We believe that no individual or institution is above the law. Although the exclusive statutory authority to prosecute criminal misconduct lies with the Department of Justice, Treasury has authority to enforce U.S. economic sanctions and certain anti-money laundering laws and regulations through civil actions. We have a clear record of using our authority to aggressively pursue investigations and enforcement actions in this area.

In response to your inquiry, we have been reviewing the relevant materials. These materials involve the interests of agencies beyond just the Department of the Treasury. Consistent with longstanding Executive Branch practice, we have consulted with those agencies about their interests in these materials. One of those agencies – the Department of Justice – has advised us that it has significant prosecutorial interests in these materials. For example, the materials pertain to internal deliberations about charging decisions. Based on our consultation, the Department of Justice has requested that we not release additional text in the documents beyond what has already been produced.

Further, we are still processing Public Citizen's FOIA request. We would be happy to share with you any additional materials we produce in response to that FOIA.

Thank you for your letter. Treasury strongly supports vigorous enforcement of the law, and we look forward to working with you and the Committee on these important issues. As always, please feel free to contact me if you have any additional questions or concerns.

Sincerely,



Alastair M. Fitzpayne
Assistant Secretary for Legislative Affairs

cc: The Honorable Al Green
The Honorable Eric Holder

JEB HENSARLING, TX , CHAIRMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

August 22, 2013

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

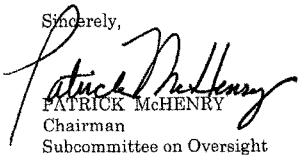
This is in response to the Department of the Treasury's letter dated July 26, 2013, responding to the Committee on Financial Services' request that the Treasury Department produce unredacted copies of all records responsive to a Freedom of Information Act ("FOIA") request by the advocacy group Public Citizen. In its letter, the Treasury Department refused to produce the unredacted records, offering instead to transmit copies of materials redacted consistent with FOIA as the Department processes Public Citizen's request.

I reject the Treasury Department's offer to produce only records redacted consistent with FOIA. FOIA does not proscribe or in any way limit Congress's right to government information.[1] Congress's oversight authority derives from the grant of legislative power contained within Article I of the U.S. Constitution, and the House of Representatives has delegated that authority to this Committee on matters relating to financial services.[2]

Because the President has not invoked "presidential communications privilege" (otherwise known as "executive privilege") with respect to the requested records, the Treasury Department has not stated a basis on which it may withhold the requested records from the Committee. Accordingly, I renew the Committee's request that the Treasury Department produce all responsive records without redactions.

Please work with the Financial Services Committee staff to provide the requested records not later than September 5, 2013. If you have questions regarding this request, please contact Joseph Clark of Committee staff at (202) 225-7502.

Sincerely,



PATRICK McHENRY
Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Al Green

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[1] Freedom of Information Act of 1966, 5 U.S.C. §552(d) (2009).
[2] *Eastland v. United States Servicemen's Fund*, 421 U.S. 491, 505 (1975); Rules of the House of Representatives, 113th Congress, Rules X and XI.

JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

November 6, 2013

BY FIRST CLASS AND ELECTRONIC MAIL

William C. Dudley
President, Federal Reserve Bank of New York
33 Liberty Street
New York, New York 10045

Dear President Dudley:

As you know, legislation to increase the authorized borrowing level for the U.S. government through February 2014 was signed into law on October 16, 2013. While the debate over the debt ceiling reflected fundamental disagreements about our nation's fiscal priorities, there was general consensus that a default on U.S. sovereign debt was potentially catastrophic and must be avoided.

This public policy imperative heightens the importance of congressional oversight to ensure that the Department of the Treasury ("Treasury Department") and/or the Federal Reserve Bank of New York ("New York Fed") have a contingency plan in place for averting a default on the debt. I believe that such a contingency plan was being formulated during the summer of 2011 during the "fiscal cliff" negotiations as reported by the *Wall Street Journal*:

> During the last big debt-ceiling standoff, in the summer of 2011, the Treasury Department was in advanced internal discussions about prioritizing interest payments on government debt ahead of other bills, but the decisions didn't have to be activated because Congress raised the debt ceiling, according to a person familiar with the planning.[1]

The testimony of Treasury Secretary Lew before the Senate Committee on Finance on October 10, 2013, however, calls into question the Treasury Department's ability to execute a contingency plan. Secretary Lew testified:

> We [the Department] write roughly 80 million checks a month. The systems are automated to pay because for 224 years, the policy of Congress and every president has been we pay our bills. You cannot go into those systems and easily make them pay some things and not other things. They weren't designed that way because it was never the policy of this government to be in the position that we would have to be in if we couldn't pay all our bills.[2]

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[1] Deborah Solomon & Dan Strumpf, *Top Bankers Warn on U.S. Debt Proposal*, Wall St. J., October 7, 2013.
[2] *The Debt Limit: Hearing Before the S. Comm. on Finance*, 113th Cong. ___ (2013) (statement of Hon. Jacob Lew, Secretary, Dep't of Treas.), *available at* http://www.finance.senate.gov/hearings.

It is difficult to understand how the Treasury Department was developing a contingency plan to prioritize payments on sovereign debt as reported by the *Wall Street Journal* if payment systems operated by or on behalf of the Treasury Department cannot be programmed to make that happen.

In light of these conflicting statements, Financial Services Committee staff contacted the New York Fed, which operates the Fedwire securities payment system by which the Department makes payments on Treasury bonds ("Fedwire Securities System"), to learn more about the Fedwire Securities System. In particular, Committee staff sought to learn whether the technology of the platform would allow the Department to make some payments and not others. I was disappointed to learn that your staff was unhelpful in this regard, citing an alleged confidential relationship between the Department and the New York Fed that prevents you from cooperating with legitimate congressional oversight.

As you are aware, the Financial Services Committee has broad jurisdiction over matters related to this inquiry, such as what effect a default on sovereign debt would have on capital markets. Bare assertions of alleged confidential relationships are no substitute for compliance with Congress's oversight efforts. Therefore, so that this committee may better understand the federal government's present ability to avert a default on its sovereign debt, please transmit to the Committee, not later than November 27, 2013, responses to the following questions and unredacted copies of the records sought below.

Questions

1. Would the New York Fed, or any other governmental department, agency, or instrumentality involved with the operation of the Fedwire Securities System, be capable of identifying any payments that are not timely made utilizing the Fedwire Securities System?

2. If the Treasury Department instructed the New York Fed to make certain payments over the Fedwire Securities System while directing that it forbear from making certain other payments, or if the Treasury Department gave such instructions directly to the Fedwire Securities System, could the Fedwire Securities System operate consistent with such instructions? If so, please assess the feasibility of accommodating that instruction; if not, please assess the feasibility of programming the Fedwire Securities System so that it could accommodate such an instruction.

3. Has the New York Fed, in its role as the operator of the Fedwire Securities System, ever engaged in any planning (whether in coordination with or independent from the Treasury Department) to consider how or whether to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised?

Records Requested:[3]

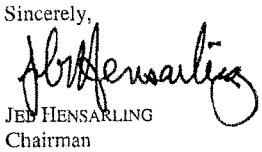
1. Communications between the New York Fed and the Treasury Department and any other communications to which the New York Fed is a party relating to the October 10, 2013, testimony of Secretary Lew before the Senate Finance Committee, as well as the names and titles of staff who were a party to any such communications and any other records related to such communications.

2. Documents, whether in final or draft form, and communications relating to efforts by the New York Fed (whether in coordination with or independent of the Treasury Department) relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.

3. Communications between the New York Fed and the Treasury Department, and any other communications to which the New York Fed is a party, relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.

If you have questions concerning this request, please contact J.W. Verret of the Committee staff at (202) 225-7502.

Sincerely,



JEB HENSARLING
Chairman

cc: The Honorable Maxine Waters, Ranking Member

[3] The term "records" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded or preserved, and whether original or copy.

JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

MAXINE WATERS, CA, RANKING MEMBER

December 6, 2013

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Secretary Lew:

As you know, legislation to increase the authorized borrowing level for the U.S. government through February 2014 was signed into law on October 16, 2013. While the debate over the debt ceiling reflected fundamental disagreements about our nation's fiscal priorities, there was general consensus that a default on U.S. sovereign debt was potentially catastrophic and must be avoided.

This public policy imperative heightens the importance of congressional oversight to ensure that the Department of the Treasury ("Treasury Department") and/or the Federal Reserve System, including the Federal Reserve Bank of New York ("New York Fed") (collectively, the "Federal Reserve"), have a contingency plan in place for averting a default on the debt. We believe that such a contingency plan was being formulated during the summer of 2011 during the "fiscal cliff" negotiations as reported by the *Wall Street Journal*:

> During the last big debt-ceiling standoff, in the summer of 2011, the Treasury Department was in advanced internal discussions about prioritizing interest payments on government debt ahead of other bills, but the decisions didn't have to be activated because Congress raised the debt ceiling, according to a person familiar with the planning.[1]

Your testimony before the Senate Committee on Finance on October 10, 2013, however, calls into question the Treasury Department's ability to execute a contingency plan. You testified:

> We [the Department] write roughly 80 million checks a month. The systems are automated to pay because for 224 years, the policy of Congress and every president has been we pay our bills. You cannot go into those systems and easily make them pay some things and not other things. They weren't designed that way because it was never the policy of this government to be in the position that we would have to be in if we couldn't pay all our bills.[2]

It is difficult to understand how the Treasury Department was developing a contingency plan to prioritize payments on sovereign debt as reported by the *Wall Street Journal* if payment systems operated by or on behalf of the Treasury Department cannot be programmed to make that happen.

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[1] Deborah Solomon & Dan Strumpf, *Top Bankers Warn on U.S. Debt Proposal*, Wall St. J., October 7, 2013.
[2] *The Debt Limit. Hearing Before the S. Comm. on Finance*, 113th Cong. ___ (2013) (statement of Hon. Jacob Lew, Secretary, Dep't of Treas.), *available at* http://www.finance.senate.gov/hearings.

In light of these conflicting statements, Financial Services Committee staff contacted the New York Fed, which operates the Fedwire securities payment system by which the Treasury Department makes payments on Treasury bonds ("Fedwire Securities System"), to learn more about the Fedwire Securities System. In particular, Committee staff sought to learn whether the technology of the platform would allow the Treasury Department to make some payments and not others. New York Fed staff declined to provide responsive answers to the Committee's questions, however, on the ground that the requested information was subject to a confidentiality interest arising from an alleged "principal-agent relationship" between the New York Fed and the Treasury Department. In a letter dated December 5, 2013, New York Fed General Counsel Thomas C. Baxter informed the Committee that he has sought permission from your Department to provide the information and records that the Committee requested.

We were disappointed by the New York Fed's response, because such a "confidentiality interest" — if it existed — would not bar the Committee's oversight. As you are aware, the present inquiry directly relates to matters within the Committee's jurisdiction, such as what effect a default on sovereign debt would have on capital markets. Because the President has not invoked "presidential communications privilege" (otherwise known as "executive privilege") with respect to the requested information, there is no basis on which the Executive Branch or its agents might conceivably be justified in withholding the information. We will inform the New York Fed in separate correspondence of these basic constitutional principles but anticipate that the Treasury Department will also do so to ensure an expedited response to the Committee's request. Additionally, please transmit to the Committee, not later than December 18, 2013, responses to the following questions and unredacted copies of the records sought below.

Questions

1. Would a governmental department, agency, or instrumentality involved with the operation of the Fedwire Securities System, be capable of identifying any payments that are not timely made utilizing the Fedwire Securities System?

2. If the Treasury Department instructed the New York Fed to make certain payments over the Fedwire Securities System while directing that it forbear from making certain other payments, or if the Treasury Department gave such instructions directly to the Fedwire Securities System, could the Fedwire Securities System operate consistent with such instructions? If so, please assess the feasibility of accommodating that instruction; if not, please assess the feasibility of programming the Fedwire Securities System so that it could accommodate such an instruction.

3. Has the Treasury Department engaged in any planning (whether in coordination with or independent from the Federal Reserve or any other government department, agency, or instrumentality) to consider how or whether to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised?

Records Requested:[3]

1. Records, whether in final or draft form, associated with any meeting of the Federal Open Market Committee (including without limitation meetings occurring on August 1, 2011 and October 16, 2013) that relate to one or both of the following: (i) issues associated with contingencies in the event the Treasury Department was temporarily unable to meet its obligations because the debt ceiling were not raised; (ii) related plans that the Treasury Department and/or the Federal Reserve developed regarding the processing of federal payments.

2. The names and titles of staff who briefed the FOMC on the matters described in Request 1 above.

3. Communications between the Treasury Department and the Federal Reserve and any other communications to which the Treasury Department is a party relating to the October 10, 2013, testimony of Secretary Lew before the Senate Finance Committee, as well as the names and titles of staff who were a party to any such communications and any other records related to such communications.

4. Communications and other records, whether in final or draft form, relating to any plan for whether or how to continue making principal and interest payments on Treasury debt if the nation's borrowing limit is not raised.

If you have questions concerning this request, please contact J.W. Verret of the Committee staff at (202) 225-7502.

Sincerely,

JEB HENSARLING
Chairman

PATRICK MCHENRY
Chairman,
Subcommittee on Oversight and Investigations

cc: The Honorable Maxine Waters, Ranking Member
The Honorable Al Green, Ranking Member, Subcommittee on Oversight and Investigations

[3] The term "records" means any written, recorded, or graphic matter of any nature whatsoever, regardless of how recorded or preserved, and whether original or copy.

Canadian Vehicle Manufacturers' Association
Association canadienne des constructeurs de véhicules

November 21, 2013

Ambassador Michael B. Froman
United States Trade Representative
Office of the United States Trade Representative
600 17th Street N.W.
Washington D.C. 20508 U.S.A.

Dr. Ildefonso Guajardo Villarreal
Minister of Economy, Mexico
Alfonso Reyes 30, piso 10
Col. Hipódromo Condesa
Del. Cuauhtémoc
06140 México, D. F.
México

The Honourable Edward Fast
Minister of International Trade, Canada
125 Sussex Drive
Ottawa, ON, K1A 0G2
Canada

Dear Ambassador Froman, Minister Guajardo, and Minister Fast:

On behalf of the American Automotive Policy Council (AAPC), the Mexican Automobile Industry Association (AMIA), and the Canadian Vehicle Manufacturers' Association (CVMA), representing North America's motor vehicle manufacturers, hundreds of thousands of jobs, and tens of billions of dollars in annual investments in the region, we are writing to share our views on the importance of addressing the trade-distorting impact of currency manipulation in the Trans-Pacific Partnership Free Trade Agreement (TPP-FTA) and offer our recommended solution.

Participants in the TPP negotiations have repeatedly emphasized their strong support for the conclusion of a 21st century, high-standard agreement that will spur increased trade, economic growth and job creation. Given the interconnection between trade and finance, to achieve that result, the TPP-FTA must ensure that currency manipulation by a TPP member does not undermine the TPP-FTA's market access commitments.

Although the International Monetary Fund (IMF) does prohibit the manipulation of exchange rates to gain an unfair advantage, the lack of enforceability of IMF rules has limited their impact, particularly its negative spillover effects on trade. Therefore, given its importance and capacity to undermine the TPP-FTA's commitments, AAPC, AMIA and CVMA call for the inclusion of strong and enforceable currency provisions in the TPP-FTA, and propose an approach based on IMF commitments previously agreed upon by all TPP member countries.

We propose that the manipulation of exchange rates by a TPP member to gain an unfair competitive advantage over another TPP member be prohibited and in determining whether a TPP member has violated this rule, the following three-part test would be applied:

- Did the TPP member have a current account surplus over the six-month period in question?
- Did it add to its foreign exchange reserves over that same six-month period?
- Are its foreign exchange reserves more than sufficient (i.e., greater than three months normal imports)?

Additionally, in compliance with their IMF transparency obligations, TPP members would be obligated under the TPP-FTA to share information, including their foreign exchange holdings and their interventions to acquire foreign assets, with other TPP Members.

If a TPP member is found to have breached these currency commitments by meeting all three criteria or failing to uphold its transparency commitments, other TPP members would be entitled to suspend the tariff benefits of the agreement through an expedited dispute settlement process. This approach would disincentivize direct intervention into the currency markets by any single country to gain a competitive advantage over the other free trade agreement partners. It would not affect the use of monetary policy tools, such as quantitative easing.

We look forward to discussing further with you and your negotiation teams our shared view that strong and enforceable currency manipulation disciplines must be included in the TPP-FTA, and the merits of our recommended approach outlined above and in further detail in the attached proposal.

Sincerely,

Governor Matt Blunt
President, American Automotive Policy Council (AAPC)

Eduardo J. Solis Sanchez
Executive President, Asociación Mexicana de la Industria Automotriz (AMIA)

Mark A. Nantais
President, Canadian Vehicle Manufacturers' Association (CVMA)

Enclosure

To Ensure a Level Playing Field, Automakers Support the Inclusion of Strong, Enforceable Currency Provisions in the Trans-Pacific Partnership

Introduction. The Trans-Pacific Partnership (TPP) countries account for nearly 40 percent of global GDP and about one-third of all world trade.[1] TPP members have repeatedly expressed strong support for the conclusion of a 21st century, high-ambition agreement that will spur increased trade, economic growth and job creation. Given the interconnection between trade and finance, to achieve an ambitious result, the trade pact must ensure that currency manipulation by a TPP member does not frustrate the market access commitments set forth in the final agreement.

"The International Monetary Fund (IMF) works to foster international monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."[2] From its inception, the IMF recognized the extent of the interconnection with and integration of trade and finance. That is why Article IV (iii) of the IMF prohibits the manipulation of exchange rates to gain an unfair competitive advantage.[3] Unfortunately, the lack of enforceability of IMF rules has limited their impact, especially with regard to currency manipulation and its negative spillover effects.

The American Automotive Policy Council (AAPC), Mexican Automobile Industry Association (AMIA), and the Canadian Vehicle Manufacturers' Association (CVMA) on behalf of their members, call for the inclusion of strong, enforceable currency provisions in the Trans-Pacific Partnership (TPP) Agreement. This proposal is based on previously agreed upon IMF commitments by all TPP member countries.

Proposal to Prohibit Currency Manipulation. The manipulation of exchange rates by a TPP member to gain an unfair competitive advantage over other TPP members shall be prohibited.[4] This prohibition shall apply to a TPP member's exchange arrangements with all currencies, and not just the currencies of the parties that have joined the agreement. IMF principles to be considered when evaluating whether a TPP member has violated this rule include:[5]

- Protracted large-scale intervention in one direction in the exchange market;
- Excessive and prolonged official or quasi-official accumulation of foreign assets; and
- Large and prolonged current account deficits or surpluses.

In determining whether a TPP member has violated these principles, the following three-part test shall be applied:[6]

- Did the TPP member have a current account surplus over the six-month period in question?
- Did it add to its foreign exchange reserves over that same six-month period?[7]
- Are its foreign exchange reserves more than sufficient[8] (i.e., greater than three months normal imports)?[9]

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[1] Joint Statement of TPP Ministers, April 20, 2013. http://www.ustr.gov/about-us/press-office/press-releases/2013/april/joint-statement-tpp-ministers

[2] Factsheet, The IMF at a Glance, March 29, 2013. http://www.imf.org/external/np/exr/facts/glance.htm.

[3] *See* Article IV(iii) of the IMF Articles of Agreement, which states that each IMF member "shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members."

[4] *Id.*

[5] IMF Bilateral and Multilateral Executive Board Decision, para. 21 (July 18, 2012)

[6] AAPC proposes the following text for inclusion in the TPP: "A Party's net accumulation of foreign exchange reserves over a six month period of time shall be considered to be manipulation of exchange rates, for the purpose of gaining an unfair competitive advantage, if the Party's foreign exchange reserves, including the net accumulation, are in excess of three months normal imports, and if the Party has a multilateral current account surplus throughout the six month period."

[7] Increases in foreign exchange reserves that occur solely as a consequence of exchange rate movements, or as a consequence of earnings on sovereign assets denominated in a foreign currency, shall not be considered in determining the existence of a net accumulation.

Transparency. TPP members shall share information including their foreign exchange holdings and their interventions to acquire foreign assets on a quarterly basis, in compliance with the transparency obligations set forth in Article VIII(5)(a) of the IMF Articles of Agreement, the IMF Special Data Dissemination Standard and IMF Currency Composition of Official Foreign Exchange Reserves (COFER) requirements.

Dispute Settlement. Like other binding commitments in the TPP agreement, the prohibition on the manipulation of exchange rates by a TPP member to gain an unfair competitive advantage over other TPP members and the transparency obligations set forth above shall be enforceable through the TPP dispute settlement process. Dispute settlement of these currency issues shall be expedited and panels convened to resolve such disputes shall be composed of individuals with established expertise in the field, such as individuals who previously have served as senior officials of central banks, sovereign treasuries, or the IMF.

Remedy. If a TPP member is found to have breached its currency commitments under the agreement, other TPP members shall be entitled to suspend the tariff benefits of the agreement with respect to the violating TPP member at a minimum for one year, and until the TPP member demonstrates that it has remedied the breach. In the event that a tariff on a good has not been eliminated, the period of time before the tariff is eliminated would be extended.

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[8] An exception will also be made for "rainy day" funds accumulated by countries whose export earnings are heavily reliant on non-renewable commodity exports (i.e., where non-renewable natural resources exceed 50% of total exports). More generally, the national security exception in the TPP agreement shall apply.

[9] "Normal imports" shall ordinarily be determined by examining actual imports during the twelve months immediately preceding the six month time period at issue.

PROPOSED LANGUAGE TO ADDRESS CURRENCY MANIPULATION IN THE TPP

STATEMENT OF SHARED COMMITMENT
The Parties reaffirm their obligations as members of the International Monetary Fund (IMF).

AGREED PRINCIPLES OF FOREIGN CURRENCY EXCHANGE ARRANGEMENTS
1. No Party shall manipulate its foreign currency exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage.
2. The obligations of this Chapter shall apply to a Party's foreign exchange rate arrangements with all currencies, and shall not be limited to foreign exchange arrangements that expressly apply to the currencies of Parties to this Agreement.

CURRENCY MANIPULATION
1. A Party's net accumulation of foreign exchange reserves over a six month period of time shall be considered to be manipulation of exchange rates, for the purpose of preventing effective balance of payments adjustment or to gain an unfair competitive advantage, if the Party's foreign exchange reserves, including the net accumulation, are in excess of three months normal imports, and if the Party has a multilateral current account surplus throughout the six month period.
2. Increases in foreign exchange reserves that occur solely as a consequence of exchange rate movements, or as a consequence of earnings on sovereign assets denominated in a foreign currency, shall not be considered in determining the existence of a net accumulation;
3. All of a Party's sovereign assets that are denominated in foreign currencies, including assets of the Party's treasury and the Party's central bank, and sovereign investments of the Party, shall be considered to be foreign exchange reserves for this purpose; and
4. "Normal imports" shall ordinarily be determined by examining a Party's actual imports during the twelve months immediately preceding the six-month time period at issue.
5. An exception will be made for "rainy day" funds accumulated by countries whose export earnings are heavily reliant on non-renewable commodity exports (i.e., where non-renewable natural resources exceed 50% of total exports)

TRANSPARENCY
1. Recognizing the importance of transparency, the Parties specifically agree that they shall submit to the IMF and each other, on a quarterly basis, all information that is enumerated in Article VIII(5)(a) of the IMF Articles of Agreement, the IMF Special Data Dissemination Standard and IMF Currency Composition of Official Foreign Exchange Reserves (COFER) requirements.

DISPUTE SETTLEMENT
1. A Party may avail itself of the dispute settlement chapter in this Agreement to resolve any matter arising under this Chapter.
2. Panels convened under the dispute settlement chapter to resolve disputes under this Chapter above shall be expedited and shall be composed of individuals with established expertise in the field, such as individuals who previously have served as officials of central banks, sovereign treasuries, or the IMF.

REMEDIES
1. If a Party is found to have to have manipulated its exchange rates or has failed to fulfill the transparency obligations described above, other Parties to this Agreement shall be entitled to suspend the tariff benefits of this Agreement with respect to the offending Party. Such suspension may be for up to one year.
2. If, at the conclusion of the one-year period of suspension, the panel concludes that the most recent data available shows that the offending Party has continued to manipulate its exchange rates or has continued to fail to fulfill the transparency obligations described above, then other Parties to this Agreement shall be entitled to continue the suspension of the tariff benefits of this Agreement until such time as the offending Party can demonstrate to the panel that it has ceased to engage in manipulation or has met its transparency obligations.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congressman Sean Duffy (R-WI):

Question 1:

What are the differences you see between asset managers and banks? Should there be different regulations that oversee the different business models, or do you believe bank-centric regulations are appropriate for asset managers?

Answer:

Asset managers and banks have different business models. In its final rule and interpretive guidance regarding the designation of nonbank financial companies, the Financial Stability Oversight Council (Council) set forth a detailed and thorough process for evaluating any company under consideration for potential designation. As described in the rule and guidance, this process accommodates the diversity of business models within the financial sector by conducting each analysis on a company-specific basis. The guidance notes that in its company-specific analysis, the Council intends to take into account off-balance sheet assets and liabilities and assets under management in a manner that recognizes the unique and distinct nature of these classes.

The Federal Reserve Board is responsible for promulgating the enhanced prudential standards that will be applicable to designated nonbank financial companies. Section 165 of the Dodd-Frank Act authorizes the Federal Reserve Board to differentiate among companies, taking into consideration their financial activities and other factors, in prescribing these prudential standards. I expect that the Federal Reserve Board will consider this discretionary authority when developing prudential standards that will be applicable to nonbank financial companies.

Question 2:

What standards has the Financial Stability Oversight Council (FSOC) developed to determine systemic risk? When will those standards be made public so that banking and non-bank institutions will know how to prepare? Or does FSOC plan to continue taking a "we will know it when we see it approach?"

Answer:

The Council has undertaken a careful and transparent process for its nonbank financial company designations, including a process that incorporated multiple rounds of public comments before issuing a final rule and interpretive guidance on designations in April 2012.

Section 113 of the Dodd-Frank Act lists 10 factors that the Council must consider in making a determination regarding a nonbank financial company. Those considerations include leverage,

interconnectedness, size, and existing regulatory scrutiny. The Council's rule and guidance provide the public and firms with additional detailed information about the criteria and process by which the Council reviews companies for potential designation. The guidance establishes publicly available, clear, quantitative metrics that the Council uses to identify firms for further evaluation, and extensively describes the company-specific analysis that the Council conducts. In addition, the Council has publicly released and reported to Congress statements of the basis for each of the three final designations that it has completed.

Question 3:

What kind of notice will you be providing institutions that are determined a systemic risk? Will they continue to learn of this designation in the press, or will you develop official notification guidelines?

Answer:

A nonbank financial company under review by the Council has numerous and extensive opportunities to engage with the Council before the Council determines that the company should be subject to supervision by the Federal Reserve Board and enhanced prudential standards. First, early in the process, the Council provides a company with a notice that it is under consideration, and gives the company an opportunity to submit materials to contest the Council's consideration. This goes beyond the provisions of the Dodd-Frank Act. Second, before any proposed designation, there is extensive interaction between Council staff and the company, including a number of meetings and information requests. If the Council proposes to designate a nonbank financial company, the Council sends the company a written explanation of the Council's proposed designation, and the firm is entitled to a hearing to contest that action. For the only firm so far that has requested an oral hearing, the Council granted it and conducted it in person. In addition, if the Council determines that a nonbank financial company will be subject to supervision by the Federal Reserve Board and enhanced prudential standards, the company has a right to seek judicial review of that determination. The Council also reviews all previous nonbank financial company designations annually, based on a process set forth in the Council's rule on nonbank designations.

For each of the three companies that have been subject to a final designation by the Council, the Council has notified the company of the designation immediately after making the determination.

Although the Council does not publicly announce the name of any nonbank financial company under review before the Council has made any final designation, the Council has publicly released and reported to Congress statements of the basis for each of the three final designations that it has completed.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Question 4:

What other metrics is FSOC using to determine whether a non-bank financial institution is a systemic risk besides capital standards? Do you have any other tools available that are not bank-centric regulations and are appropriate determiners of risk for non-bank institutions?

Answer:

As noted above, Section 113 of the Dodd-Frank Act lists 10 factors that the Council must consider in making a determination regarding the designation of a nonbank financial company. Those considerations include leverage, interconnectedness, size, and existing regulatory scrutiny. The Council's rule and guidance, issued in April 2012, provide the public and firms with additional detailed information about the criteria and process by which the Council reviews companies for potential designation. The guidance establishes publicly available, clear, quantitative metrics that the Council uses to identify firms for further evaluation. Any nonbank financial company with more than $50 billion in total consolidated assets that exceeds any of five other quantitative thresholds described in the guidance will be subject to further evaluation. The Council's public guidance also extensively describes the analysis that the Council conducts in subsequent stages of its firm-specific reviews.

Question 5:

Does FSOC intend to designate any non-bank institutions as systemically important financial institutions (SIFIs) and subject them to bank-centric regulations by the Federal Reserve Board?

Answer:

On July 8, 2013, the Council voted to make final designations of two nonbank financial companies—AIG and General Electric Capital Corporation—for Federal Reserve Board supervision and enhanced prudential standards. On September 19, the Council made a final designation of a third nonbank financial company—Prudential Financial, Inc. (Prudential). The Council has publicly released and reported to Congress a statement of the basis for each determination. The Council's work related to nonbank financial companies is ongoing and the Council will continue to consider firms that meet the statutory criteria for potential designation.

Section 165 of the Dodd-Frank Act authorizes the Federal Reserve Board to differentiate among companies, taking into consideration their financial activities and other factors, in prescribing the enhanced prudential standards applicable to designated nonbank financial companies. I expect that the Federal Reserve Board will consider this discretionary authority when developing prudential standards that will be applicable to nonbank financial companies.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Question 6:

Did you perform any required or voluntary cost-benefit analysis when developing the Volcker Rule? If even after the analysis, if the rule is found to reduce market liquidity and increased costs, what plans do you have to respond and make adjustments?

Answer:

As Chairperson of the Council, my statutory role was to coordinate the work of the five agencies responsible for promulgating the Volcker Rule. Those agencies would be better positioned to answer questions about their processes and analyses in the rulemaking.

Question 7:

I have a community bank in my district that owns a CDO invested in trust preferred securities with a principle value of $1.9 million. Because of a series of accounting rules, there is no market for these securities, yet under the Volcker Rule they will be forced to sell this investment. Doing so will force the community bank to absorb a loss of almost $1 million. This is not a small amount and will take a toll on their capital ratio. This is the type of negative impact a 1000-page rule will have on a community bank in Wisconsin – a community bank that played no part in the financial meltdown. So, I ask again, what plans do you have to make adjustments to the Volcker Rule when stories like this will undoubtedly continue to unfold?

Answer:

As Chairperson of the Council, my statutory role was to coordinate the work of the five agencies responsible for promulgating the Volcker Rule that was completed in December 2013. Those agencies subsequently issued an interim final rule regarding investments by banking entities in certain collateralized debt obligations backed by trust preferred securities and are best positioned to answer any questions about their processes and analyses.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congressman Stephen Fincher (R-TN):

Questions for Secretary Lew on Basel III Bills

Earlier this year, I introduced legislation to delay implementation of Basel III until a quantitative impact study can be completed to determine how its new capital requirements, coupled with the new capital requirements in Dodd-Frank, will affect financial institutions in the United States. As I'm sure you're aware, a similar study was included in the PATH Act passed by this Committee.

Question 1:

Are you concerned at all that the combination of Basel III and Dodd-Frank capital requirements will have a negative impact on our economy and the ability of families to get credit or obtain a mortgage?

Answer:

The federal banking agencies finalized capital requirements in July 2013, adopting the international Basel III standards and fulfilling a statutory mandate under the Dodd-Frank Act. By enhancing the quantity and quality of capital buffers that banking organizations must hold, the final rules foster a more resilient financial system capable of reducing potential market disruptions that can impact families' long-term access to mortgages and credit. I believe that the agencies found an appropriate balance between safety and soundness and the provision of credit to the real economy.

Question 2:

Do you think financial institutions are prepared for the impact of Basel III?

Answer:

Many financial institutions have been anticipating these reforms, which developed in response to the financial crisis, and have been proactive in seeking compliance. The banking regulators have provided a reasonable phase-in period. Today according to the FDIC, a majority of banks are at or near compliance with the fully phased-in U.S. implementation of the international Basel III standards.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Question 3:

How will the implementation of Basel III impact community banks?

Answer:

The rules implementing the Basel III capital requirements will have the biggest impact on the largest, most complex banking organizations. The structure of community banks is less complex than the larger banking organizations and community banks generally engage in less complex banking activities. According to the FDIC, a majority of banks already meet the relevant standards under the rules implementing the Basel III capital requirements, which incorporate a number of provisions that address the concerns of community banks. For instance, the rules grant most mid-sized and smaller banking organizations the option of retaining their current accounting treatment to mitigate the impact of unrealized gains and losses for certain securities on regulatory capital, whereas larger banks will be held to a more rigorous capital accounting treatment. In addition, the Federal Reserve Board estimates that nine out of 10 financial institutions with less than $10 billion in assets would meet the new tier 1 common equity minimum (including the buffer) of 7 percent, according to data from March 2013.

Question 4:

Do you think it would be worthwhile to at least do a quantitative impact study to determine specifically how Basel III will impact financial institutions in the United States?

Answer:

The Basel III capital requirements as applied to U.S. banks are the product of extensive review by the Basel Committee on Banking Supervision and the Financial Stability Board, as well as the independent federal banking agencies' careful consideration of comment letters submitted throughout the rulemaking process by financial institutions and stakeholders. Moreover, Treasury supports the fulfillment of the United States' commitment to comply with the capital requirement framework set forth by the international financial regulatory community. We believe that international coordination of capital requirements is a critical measure for preventing regulatory arbitrage, as well as to protect against vulnerabilities emanating from outside our borders that could flow back to the United States. Delaying implementation of Basel III would not only prevent the United States from meeting its international commitments, but also may prompt other jurisdictions to reduce their efforts for strong financial institution regulation, possibly resulting in an uneven playing field or increasing risk to the U.S. economic and financial system from events abroad.

I also introduced legislation, which was passed by the House with overwhelming bipartisan support, requiring the FSOC to conduct a study on the implementation of the Credit

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Valuation Adjustment (CVA) capital requirement included in Basel III on U.S. consumers. As you know, European regulators created an exemption from CVA for its banks doing business with corporate end-users, pension funds and sovereigns. Canada has also delayed its implementation and Asia corporations have concerns.

Question 5:

Are you concerned about the disparate implementation of CVA, and wouldn't it be prudent for policymakers to examine the impact on US financial institutions and US end-users?

Answer:

We support the determination of our colleagues at the U.S. bank supervisors that a CVA capital requirement should apply to banks' derivatives transactions with non-clearing counterparties, including public sector entities, pension funds, and corporate end-users. The CVA capital requirement is designed to help protect our banking system from certain risks of these un-cleared, and often uncollateralized, trades. CVA losses accounted for a majority of the counterparty credit losses during the financial crisis, according to the Basel Committee on Banking Supervision.

The U.S. bank supervisors, along with the Treasury Department, are working with the Basel Committee on Banking Supervision and the Financial Stability Board on ongoing international initiatives to promote uniform international implementation of capital and other prudential standards and principles.

Question 6:

Would you agree that uncoordinated action by multiple regulatory agencies and jurisdictions imposes a cost on the financial system of the United States and other regions?

Answer:

Since finance is global, strong and consistent regulations at home and in foreign jurisdictions are important to prevent regulatory arbitrage and a race to the bottom, as well as to protect against vulnerabilities emanating from outside our borders that could flow back to the United States.

The United States has taken a leading role in an extensive international effort to improve financial regulation around the globe, and federal bank and market regulators are playing an important part in coordinating this effort globally so that implementation across national authorities is consistent and timely. We are working through international fora, such as the G-20 and the Financial Stability Board, to build a global regulatory framework, based on strong standards and a level playing field. Member agencies of the Financial Stability Oversight

Council also are engaging with their counterparts around the globe, including through bilateral financial dialogues with the European Commission, Japan, China, India, Mexico, and Canada, to develop consistent approaches toward regulating financial institutions and markets in major financial jurisdictions.

Question 7:

Wouldn't it be prudent for both foreign and domestic regulators to work together to minimize regulatory uncertainty and costs in the application of cross-border rules?

Answer:

While rolling out the reforms required by the Dodd-Frank Act, the U.S. regulatory agencies, along with the Treasury Department, continue to discuss cross-border issues with our international colleagues. We have been working hard with regulators from key foreign jurisdictions to find practical ways forward. We are working with our international counterparts to encourage them to move forward quickly and rigorously as we have done in implementing the Dodd-Frank Act. That said, it is our responsibility to protect the U.S. financial system and economy from undue risk; therefore, if needed, we will move forward with our reforms regardless of international delay of implementation.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Questions Congressman Jim Himes (D-CT):

Question 1:

In the wake of the OFR report on Asset Management and Financial Stability, do you expect that the FSOC will be designating any Asset Management Firms as Systemically Important Financial Institutions in the future? If so, what will the timing and process be for these designations?

Answer:

The OFR conducted this research at the request of the Council in order to provide an overview of certain risks that could be posed by asset management firms and activities. The report did not contain any recommendations. The Council is conducting a thorough review of the asset management industry and activities, and as this analysis moves forward, it will continue to be informed by the OFR's work. As the Council fulfills its statutory duty to identify potential threats to the financial stability of the United States, the Council welcomes continued engagement with asset managers and other stakeholders.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congressman Randy Hultgren (R-IL):

Question 1:

Some of the Basel Committee's recent proposals – specifically the leverage ratio and exposures to clearing houses – increase capital requirements associated with the central clearing of derivatives. Title VII of Dodd-Frank encourages central clearing, yet these Basel capital implications could make clearing costs prohibitive. How are you working with the FED to make sure the Basel capital regime isn't undercutting and running counter to the Congress' intent to encourage cost-effective derivatives clearing?

Answer:

Central clearing of derivatives is an important means for bringing transparency and standardization to the over-the-counter derivatives market, and there are a number of international workstreams dedicated to implementing this mandate while maintaining deep, liquid financial markets. We support international efforts and the Basel Committee on Banking Supervision's objective of ensuring that adequate safeguards are put in place to properly insulate centralized risk-clearing platforms from excessive risk, and will continue working with the Federal Reserve Board to ensure that these important reforms are effectively implemented.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congressman Blaine Luetkemeyer (R-MO):

Question 1:

As I've expressed to FIO in the past, I'm concerned by the steps that Treasury is taking in regards to federal regulation of insurance. The August 27th Financial Stability Board Peer Review of the United States recognized that state regulation of insurance has been "thorough and effective" yet also recommended consideration of transferring more insurance authority to the Federal Government. As a member of the FSB, is it your intent to turn more control over insurance regulation to federal authorities?

Answer:

With counterparts from other G-20 economies, Treasury serves on the FSB to coordinate at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. Like the G-20, the FSB follows a consensus-based, decision-making process to develop its standards, which include recommendations, principles, policies, and guidance. Standards established by or through the FSB are not self-executing or legally binding. Rather, individual countries determine how to comply with international standards.

Treasury's FIO will continue to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters. FIO works with other federal agencies and state regulators to promote a coordinated approach to international insurance matters.

Question 2:

Treasury and the Federal Insurance Office are supposed to be working with state insurance regulators. And part of the charge of FIO, which comes under your supervision, is to represent the American insurance system abroad. This peer review is concerning, as it seems that the United States continues to cede to the regulatory schemes of other nations despite the fact that we have a perfectly effective and properly regulated insurance industry in this country. Can you assure me that you and the FIO are doing everything in your power to properly represent the interests of the U.S. insurance market? Are Treasury officials taking the necessary steps to promote the American regulatory structure abroad?

Answer:

Treasury's FIO works with other federal agencies and state insurance regulators to promote a coordinated and effective approach to prudential aspects of international insurance matters. Treasury officials, representatives of other federal agencies, and state regulators jointly attend and participate in discussions in multiple fora regarding international insurance issues.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

FIO will continue to work with interested parties to modernize and improve the U.S. system of insurance regulation and to promote the best interests of U.S. insurance consumers, the U.S. insurance industry, and the U.S. national economy. Additionally, as evidenced in the recently released report, "How to Modernize and Improve the System of Insurance Regulation in the United States", Treasury supports the current model of insurance regulation where both the states and the federal government play a role.

Question 3:

On May 17, 2013, I sent a letter to you and Attorney General Holder requesting an investigation into how the former IRS Director of Exempt Organizations, Lois Lerner, and her staff handled three years of requests from my office regarding the Humane Society of the United States' (HSUS) tax exempt status. Despite thousands of documents exposing inappropriate conduct by HSUS, there remains no evidence that Ms. Lerner or her staff conducted any sort of investigation. In the absence of your response, one can only assume my requests were disregarded for political reasons, particularly given the partisan misconduct on the part of Ms. Lerner and her staff. Shortly after the May 17, 2013, letter, you appeared before this Committee and committed to providing a response to me within thirty days. After seven months, my office has yet to receive a response. Can you explain why this deadline was missed and address the concerns laid out in my initial letter? Please provide a specific timeline for your formal response to my May 17, 2013, letter.

Answer:

The Department of the Treasury oversees the IRS with respect to matters of broad management and tax policy. Treasury's longstanding practice, spanning administrations of Republican and Democratic presidents, is not to be involved in the details of tax administration and enforcement and to refer questions about individual taxpayers to the IRS. Consistent with this practice, we have referred your letter to the IRS.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congresswoman Gwen Moore (D-WI):

Secretary Lew:

I appreciate your testimony.

I have a few questions regarding the view of the Financial Stability Oversight Council (FSOC) on the report *Asset Management and Financial Stability* (Report) by the Office of Financial Research (OFR).

Question 1:

In a recent speech, you indicated that the Report will provide the FSOC with "important analysis" regarding whether asset-management firms should be designated as systemically important financial institution (SIFI). My first question is two parts: Can you provide some clarification regarding how the FSOC views the Report, as I have heard it characterized in various ways; and, given that the Securities and Exchange Commission issued the Report for public comment, how will the FSOC proceed with using the Report, for example, will the FSOC ask OFR to update and revise the Report based on the public comment?

Answer:

The OFR conducted this research at the request of the Council in order to provide an overview of certain risks that could be posed by asset management firms and activities. The Council is conducting a thorough analysis of this sector to better understand whether there are risks that could threaten the financial system and whether any actions should be taken by the Council to mitigate these risks. As that analysis moves forward, the Council will continue to be informed by the work of the OFR.

The report did not contain any recommendations to the Council. While I do not expect the Council to ask the OFR to revise its research based on public comments, the Council fulfills its statutory duty to identify potential threats to the financial stability of the United States, the Council welcomes continued engagement with asset managers and other stakeholders.

Question 2:

The FSOC has already made some SIFI designations that were widely expected and non-controversial, but the Report generated some commentary on FSOC resources being spread too thin if the SIFI designation is too broadly applied to non-bank financial firms. I would appreciate your insight on how the FSOC plans to handle this next phase of

designations, for example, will there be clear and understood framework for any SIFI designations and will the FSOC work with the primarily regulators to try and mitigate any potential risks prior to taking action or making designations?

Answer:

Section 113 of the Dodd-Frank Act lists 10 factors that the Council must consider in making a determination regarding the designation of a nonbank financial company. Those considerations include leverage, interconnectedness, size, and existing regulatory scrutiny. The Council's rule and interpretive guidance on nonbank financial company designations, issued in April 2012, provide the public and firms with additional detailed information about the criteria and process by which the Council reviews companies for potential designation. The guidance establishes publicly-available, clear, and quantitative metrics that the Council uses to identify firms for further evaluation, and it extensively describes the firm-specific analysis that the Council conducts. In addition, the Council has publicly released and reported to Congress statements of the basis for each of the three final designations that it has completed.

The Council works with existing regulators in the designations process. The Council consults with the primary financial regulatory agency of any nonbank financial company in a timely manner before making a final designation regarding the company.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congressman Dennis Ross (R-FL):

Question 1:

As you know, the OFR recently released a study on "Asset Management and Financial Stability." The public comments received from both the asset management industry and consumer groups were overwhelmingly critical of not only the study's accuracy and thoroughness, but also its demonstrable lack of understanding of the asset management business. As chair of the FSOC, how do you plan to use this study? Will you rely on this study in considering whether asset management firms should be designated as nonbank systemically important financial institutions or in identifying systemically significant financial activities or practices?

Answer:

The OFR conducted this research at the request of the Council in order to provide an overview of certain risks that could be posed by asset management firms and activities. The Council is conducting a thorough review of this sector to better understand whether there are risks that could threaten the financial system and whether any actions should be taken by the Council to mitigate these risks. As that analysis moves forward, the Council will continue to be informed by the work of the OFR and will welcome engagement with asset managers and other stakeholders.

Question 2:

Do you have any concerns whatsoever about the Volcker Rule rulemaking process as a whole or at any of the five agencies involved? Are you confident that this rule was promulgated in accordance with the Administrative Procedure Act and other applicable rulemaking requirements? To quote a few concerns expressed about the process:

- **"The Volcker Rule proposal, it turns out, was simply a series of questions in search of a proposal. Now that we have one, it should be noticed for comment. Instead, we are promulgating this rule despite the fact that redlines of the proposed 2011 [Code of Federal Regulations] text against the final CFR text are dripping from front to back with wholesale blocks of red." [SEC Commissioner Dan Gallagher]**

- **The Rulemaking Agencies have not complied with legal obligations that apply to any rulemaking. In particular, the proposal of the Volcker Rule that preceded today's action did not provide sufficient notice to the public of the contents of the rule adopted today." [SEC Commissioner Mike Piwowar]**

As you may know, these statements come not from uninformed, casual observers but from SEC and CFTC Commissioners who are intimately familiar with the rulemaking

process. In your opinion, do these concerns have merit? Given that this rule was such a major "milestone," how can you assure us that the rulemaking process was adequate and appropriate?

Answer:

I am proud of the hard work by all five rulewriting agencies to implement a single, strong Volcker Rule. This was not an easy task; the agencies carefully considered more than 18,000 comments they received from the public. The preamble to the final rule describes how the final rule addresses these comments. Further, the preamble elaborates on how the agencies addressed certain matters of administrative law related to the rulemaking process. The discussion in the preamble provides a significant level of transparency into substantive and procedural issues that were addressed in the formulation of the final rule.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congressman Keith Rothfus (PA-12)

Question 1:

Mr. Secretary, earlier this year and while under your direction, the U.S. Treasury Department announced new guidelines on coal-fired power generation at the World Bank and other multilateral development banks that will further curtail U.S. support for overseas coal projects. For many developing countries around the world, however, coal-generated electricity is essential and one of the only means available to lift entire populations out of the darkness of energy poverty. To be sure, the International Energy Agency (IEA) estimates that over 1.3 billion people—nearly 20 percent of the world's population—live with no access to electricity, to say nothing of the 1.7 billion who have very limited access.

At the recent hearing, I asked you whether the Administration had consulted with other nations before developing these new guidelines. I also expressed my concern that the guidelines were essentially a unilateral political decision that was made by the White House without consulting our friends and allies, and you could tell me only that the Administration had engaged in "discussions" and "conversations" with other countries but you could not say whether they "[rose] to the level of negotiations." I requested that you to follow up in writing, and I ask you today to do the same. In particular:

Did the Administration develop these new guidelines as a result of multilateral negotiations at the boards of the various multilateral development banks? If so, which countries were involved in those negotiations? Were developing countries that will be made ineligible for funding for coal-fired power plants consulted? If so, did they agree with this new U.S. policy?

Answer:

The "Guidance for U.S. Positions on MDBs Engaging with Developing Countries on Coal-Fired Power Generation" issued by the Treasury Department on October 29, 2013, pertains to how the United States votes in the boards of the Multilateral Development Banks (MDBs). The revisions are based on the President's Climate Action Plan which was released in June 2013. When developing general guidelines for U.S. voting positions, the United States takes other stakeholders' views into account but does not usually negotiate with other countries. That being said, the United States works closely with other board members in each MDB, including representatives from developing countries, to achieve consensus on issues whenever possible. The UK and the Nordic countries have publicly stated that they also will apply voting guidelines very similar to those that the United States is using.

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

In the context of the revised guidance on coal-fired power plants, we discussed the revisions to the U.S. coal guidance with other shareholders and management of the various MDBs at the same time that the World Bank was revising its own Energy Directions Paper. Hence, we had several opportunities to interact with other stakeholders as we developed our revised guidance.

We sought to understand how any changes would impact the institutions and other stakeholders. The World Bank's Energy Directions Paper, which also seeks to reduce the funding of new coal projects overseas except in rare circumstances, was unanimously approved by the World Bank board, which is comprised of both developing and developed countries. The Climate Action Plan recognizes that the poorest developing countries experience severe power shortages that may impair their ability to generate employment and reduce poverty. Specifically, projects in the poorest countries may be approved in cases where no other economically feasible alternative exists,

Questions for the Record for Treasury Secretary Jacob J. Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on December 12, 2013

Congresswoman Kyrsten Sinema (D-AZ):

Question 1:

As you know, the IMF plays an important role in the development of overseas markets for U.S. exports. Mexico, a member of the IMF since 1945, is Arizona's largest export market. In 2012, Mexico accounted for more than 30 percent of all Arizona exports. How does U.S. participation in the IMF serve to enhance U.S.-Mexico trade relations? Can you give practical examples in which the IMF has done good work that further developed Mexico as a U.S. export market?

Answer:

The IMF is responsible for promoting global growth and financial stability, which supports U.S. jobs and exports, and promotes America's strategic interests abroad. Foreign economies in crisis import less from U.S. businesses, invest less in the United States, and can cause financial instability to spread to the United States, impacting the value of savings for average Americans. The United States has played a strong leadership role in international efforts to strengthen the resilience and stability of the global financial system, including by giving the IMF a stronger financial base, better tools, and an improved governance structure that better reflects the global economy.

The Mexican authorities have embarked upon an ambitious reform agenda to bolster their already-strong policy framework and increase growth and employment. This reform agenda is in line with IMF policy advice, including key recommendations of the 2011 Financial System Stability Assessment conducted jointly by the IMF and the World Bank. If successfully implemented, these reforms should boost economic growth in Mexico, which will provide increased opportunities for U.S. firms and workers, including U.S. exporters.

Question 2:

On November 30, 2012, the IMF approved a successor two-year arrangement for Mexico under the Flexible Credit Line (FCL) in an amount equivalent about $73 billion, and while Mexico continues to treat the arrangement as precautionary, it plays an important role in supporting Mexico's macroeconomic strategy. In light of this arrangement, what would be the impact on U.S.-Mexico relations if the IMF ceased its lending function and focused solely on surveillance and technical assistance?

Answer:

The IMF has responded rapidly and flexibly over the past five years to support its members' efforts to resolve and prevent the spread of financial crises. The United States strongly supported reforms to modernize the IMF's lending policies, and the Flexible Credit Line (FCL)

is an important addition to the IMF's crisis prevention toolkit as an instrument to support the strongest performing countries. We believe the FCL contributed to stabilizing market expectations for those countries that requested it, with positive spillovers to others.

The FCL has played an important stabilizing role in Mexico, reducing the international capital market's perception of risk and helping to maintain orderly conditions in financial markets, particularly following the global financial crisis. It also has served to buttress, and to underscore the importance of, the strong macroeconomic policies pursued by the Mexican authorities. The Mexican authorities have indicated they continue to assess global market conditions and intend to take steps toward exit from FCL support when conditions allow. Consistent with its mandate to support the stability of the international monetary system, the IMF would continue to play a critical advisory role in Mexico – including through surveillance and technical assistance – even in the absence of the FCL, as it does for all members regardless of whether there is an active lending relationship.

Question 3:

It is estimated that between $19 billion and $29 billion in illicit proceeds flow from the United States to drug trafficking organizations and other organized criminal groups in Mexico each year. What, if any, impact is the implementation of international anti-money laundering standards having on cross-border efforts to disrupt the movement and laundering of money between the United States and Mexico?

Answer:

The U.S. government works with countries around the world, including Mexico, to promote the effective implementation of international anti-money laundering/combating the financing of terrorism (AML/CFT) standards to protect the U.S. and international financial systems from abuse, including combatting the flow of illicit proceeds from drug trafficking organizations and other organized criminal groups. The U.S. government, with Treasury as the policy lead, but with the active participation of the Department of State and the Department of Justice, continues to work closely with Mexico through the Financial Action Task Force (FATF) and bilaterally to encourage Mexico to comply with international AML/CFT standards. To this end, over the past year, Mexico has made significant improvements to its AML/CFT regime, including the passage of Mexico's most comprehensive anti-money laundering legislation to date, which took effect in July 2013. Under the Peña Nieto administration, Treasury has expanded its bilateral relationship by working closely with counterparts on strategic and operational initiatives to better inform our understanding of the threats to our respective financial systems, as well as assist our law enforcement partners on money laundering cases with a U.S.-Mexico nexus. The Department of State funds the U.S. interagency effort to support the country's financial intelligence unit and to build capacity through programs offered by the Departments of Justice and Homeland Security to enhance effective implementation of international AMT/CFT standards.

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Congresswoman Ann Wagner (R-MO):

Question 1:

Secretary Lew, during your December 12th, 2013 appearance in front of the House Financial Services Committee, you stated in response to questioning that "*...to the extent that there is a need for regulation of insurance companies, it ought to reflect the characteristics of insurance companies.*"

- **As the Secretary of Treasury and Chairman of the Financial Stability Oversight Council, will you commit to ensuring that any new regulations promulgated by U.S. agencies for insurance companies – particularly in the area of capital requirements – will be adopted only after a cost/benefit analysis has been conducted, and that regulators make a reasonable determination that the benefits of such new rules outweigh the costs?**

- **Will you commit to ensuring that such cost/benefit analysis is open to public comment through a formal notice and comment period?**

Answer:

As required under the Administrative Procedure Act, the Federal Reserve and other federal agencies solicit and review comments from the public regarding any proposed rule in order to fully understand the potential impact of a rule. In going through this process, regulators analyze the implications and dynamics of new rules.

The President has issued executive orders requiring executive agencies to engage in an analysis of the costs and benefits of economically significant regulations, and encouraging the independent regulatory agencies to do the same. At the same time, the independence of our financial regulators is an important feature of our regulatory system. Consistent with this independence, the individual agencies are best placed to conduct the appropriate economic impact analyses that are consistent with their legal mandates.

Question 2:

Secretary Lew, the U.S. Treasury – in accordance with the President's Climate Action Plan – recently issued guidance that will largely end U.S. financial support for coal-fired power plants overseas. Contrary to what the Administration may believe about coal being the only target of this new policy, it is not just the U.S. coal industry that will suffer as a result.

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- **Has the Treasury Department produced an estimate as to the impact that the recently issued guidance will have on U.S. exports of manufacturing equipment used in coal-fired plants overseas? If so, please provide those economic estimates. Additionally, what is the estimated impact of lost or transferred US manufacturing jobs that will no longer be supporting these equipment and services in other countries?**

Answer:

The "Guidance for U.S. Positions on MDBs Engaging with Developing Countries on Coal-Fired Power Generation," issued by the Treasury Department on October 29, 2013, pertains to how the United States votes on the boards of the multilateral development banks. This guidance restricts the circumstances in which the United States would vote to support coal-fired plants overseas but allows for support in the poorest countries where energy needs are often the greatest, and the access to finance is often limited, if it can be demonstrated that the project overcomes binding constraints on national economic development and employs the best available technology to reduce greenhouse gas emissions that is practically feasible. The Climate Action Plan provides incentives for clean fossil fuel development. By recognizing carbon capture and sequestration (CCS) technology as the cleanest fossil fuel technology, it is expected that the development of CCS technology from the United States will be stimulated. The MDBs have been in the process of increasingly moving toward supporting clean, sustainable energy for some time, so large new coal-fired projects were not expected to be frequent, even before the CAP was announced.

The Treasury Department has not produced an estimate of the economic impact of this guidance.

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