

**THE FINANCIAL STABILITY OVERSIGHT COUNCIL
ANNUAL REPORT TO CONGRESS**

HEARING
BEFORE THE
**COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS**
UNITED STATES SENATE
ONE HUNDRED FIFTEENTH CONGRESS
SECOND SESSION
ON
EXAMINING THE FINANCIAL STABILITY OVERSIGHT COUNCIL'S 2017 AN-
NUAL REPORT AND THE OPERATIONS AND ACTIVITIES OF THE FSOC
THIS CONGRESS

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JANUARY 30, 2018
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C O N T E N T S

TUESDAY, JANUARY 30, 2018

	Page
Opening statement of Chairman Crapo	1
Prepared statement	45
Opening statements, comments, or prepared statements of:	
Senator Brown	2
WITNESS	
Steven T. Mnuchin, Secretary, Department of the Treasury	4
Prepared statement	45
Responses to written questions of:	
Senator Brown	48
Senator Sasse	53
Senator Menendez	69
Senator Warner	75
Senator Van Hollen	77
Senator Cortez Masto	77
ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD	
Letter submitted by Andrew M. Schaufele, Director, Bureau of Revenue	
Estimates	85
Department of the Treasury 2017–2018 Priority Guidance Plan, Joint	
Statement	86

THE FINANCIAL STABILITY OVERSIGHT COUNCIL ANNUAL REPORT TO CONGRESS

TUESDAY, JANUARY 30, 2018

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m., in room 538, Dirksen Senate Office Building, Hon. Mike Crapo, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN MIKE CRAPO

Chairman CRAPO. This hearing will come to order. Today, Treasury Steven Mnuchin will testify on Financial Stability Oversight Council's 2017 annual report and the operations and actions of FSOC this Congress.

In December of last year, FSOC issued its 2017 annual report, in which it provided numerous recommendations, insights into the Council's key activities, and identified potential emerging threats to financial stability. One of the recommendations urged Congress to reform the housing finance system and boost the role of private capital in mortgage finance. I have repeatedly stated that the status quo is not a viable option and reforming the housing finance system is one of my key priorities.

Testifying before the Banking Committee last year, Secretary Mnuchin reaffirmed his commitment to work with us to find a solution, and stressed the importance of finding a balance between ensuring strong taxpayer protection and ample access to credit.

Four years ago, a bipartisan group of Senators passed a housing finance reform bill in this Committee. We have an opportunity now to build on that effort and create a broader coalition of Republicans and Democrats to pass a bill into law. This remains one of my top priorities, and I look forward to continuing to work with the other Members of this Committee, with Secretary Mnuchin, and other stakeholders throughout this process.

Another focus of the report was cybersecurity, particularly in the financial services space. FSOC identified cybersecurity as an area requiring greater attention due to the increasing sophistication of cybercriminals and the growing scope and scale of malicious attacks, including data breaches. The list of significant cyberattacks and cyberbreaches both in the public and private sectors keeps growing at an alarming rate and seems to have impacted the majority of all Americans.

The Council made recommendations to specifically address cybersecurity risks, including greater collaboration between the public and private sectors.

It is critical that personal data is protected by both the Government and industry, and that when there is an attack or breach, the impact on victims is minimized.

The report also highlighted key actions taken by the Council since the last report. This included FSOC rescinding the designation of two nonbank financial companies. Many of us on the Committee have long been critical of the lack of transparency and analytic rigor of FSOC's process for designating nonbank SIFIs.

In November 2017, Treasury issued a report outlining recommendations for enhancing both the nonbank and financial market utility designation process, which included tailoring regulations to minimize burdens and ensuring the designation analyses are rigorous, clear, and transparent.

In the past, the nonbank SIFI designation process has lacked clarity and consistency, with the threat of serious regulatory consequences for firms that received the designations. This inevitably translates into higher costs for consumers and the overall economy.

When making determinations, the FSOC's process must be transparent, objective, and measurable, with clearly outlined criteria when such designations are appropriate. It must also provide clarity on how companies can shed such designations.

I thank the Secretary for his work in these areas and for testifying before the Committee today, and look forward to his comments and insights on these and other important issues.

Senator Brown.

OPENING STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, and welcome, Mr. Secretary. I look forward to your testimony on the threats to financial stability.

The economy has grown steadily for the past 8 years, in large part because of the hard-earned progress of the Obama administration. Unemployment has fallen and some, but certainly not all families have recovered from the financial crisis. We made some progress. We still have some pretty substantial challenges to financial stability in this country.

Personal savings rates have fallen for years, now stand at only 2.4 percent, the lowest since September 2005. Household debt continues to climb. Job growth in 2017 was OK—we will hear about that tonight—but below job growth in 2017 was below the levels of job growth in 2011, 2012, 2013, 2014, 2015, 2016. Three million Americans have lost their health insurance since this President took office, the largest jump since Gallup started tracking coverage a decade ago.

For the second year in a row, life expectancy for Americans actually fell, driven in large part by an opioid epidemic that has been ignored by too many in Washington.

Stock markets around the world have been on a tear, which certainly helps the top fifth of Americans. By one estimate, these are the people who own 92 percent of stocks in the United States. It is good for workers with a 401(k)—we welcome that—but too few

workers have even that retirement security. Only a third of workers are making contributions to a 401(k) or a similar retirement plan.

While the President likes to take credit for what he labeled an ugly bubble a little over a year ago, it will be interesting to see if he is eager to take credit for a down market.

Most workers build wealth with a hard-earned paycheck, not a statement from their broker. While the economy's growth last year was the same as it averaged over the prior 3 years, the share that goes to wages continues to be far too weak, and for these people, a teamster in Toledo, a waitress in Waverly, a machinist in Mansfield, building a secure middle-class life is as tough as ever. The policies of this Administration and this Congress are only making these problems worse.

The tax bill raises health care premiums—we know that—it gives a huge boost to the richest people in the country—we know that—and it could encourage more outsourcing. It keeps in place the idiotic tax deduction that corporations get for shutting down in Lima or Zanesville, Ohio, and moving to Wuhan or Beijing. And, in fact, American companies will be enticed to do that even more because companies could owe absolutely nothing to the IRS on overseas manufacturing operations, brought to you by this most recent tax bill.

Meanwhile, our kids will be left with the tab, picking up \$1 trillion in new deficits, something that your party, and Republicans in this town, used to care about.

I will be the first to acknowledge when a company does the right thing and boosts wages. I was asking bank CEOs to increase pay for their tellers, averaging about \$13 an hour, custodians, and contract workers, long before the labor market was tight. I thank them when they do that. I call them and compliment them. And I offered an amendment to the tax bill to reward companies that did right by their workers, the Patriot Corporation Act.

So I am happy that a combination of factors has caused some employers to pay their workers more, but let us keep it in perspective. Take Wells Fargo, a bank you are very aware of—familiar with. After the tax bill, Wells Fargo put out a press release to brag about raising pay to \$15 an hour. We welcome that and thank them for that. But last week the bank announced it was buying back more than \$22 billion—billion with a B—of its own stock this year, dwarfing what it passed on to workers. Think about that. That is 288 times more spent to juice their stock than the cost of raising workers' pay—288 times.

Bank of America announced a \$17 billion stock buyback while saying it was phasing out free checking for certain customers, now charging them \$12 a month.

The middle class is not just getting the short end of the tax bill. We also know they will pay the price if we roll back the rules for the financial industry. This comes as no surprise since this Administration looks like a retreat for Goldman Sachs executives.

The Treasury has issued a steady drumbeat of reports suggesting hundreds of changes to our consumer protection and financial stability rules that will make the risk and severity of the next crisis much greater. FSOC's tools are only as powerful as its members'

willingness to use them. While past members of FSOC were eager to do the hard work of keeping Wall Street honest, this new team would rather join them for schnapps at a Swiss ski resort.

Instead of fulfilling Wall Street's wish list, we should be finding a long-term solution for our budget. We should invest in our Nation's crumbling roads and bridges. We should ensure that workers are keeping the pensions they have earned.

I agree with FSOC's warning that many multi-employer plans are in tough shape. If the Congress and the Administration do not act soon, we threaten the promises made to millions of retirees, hence our Butch Lewis Pension Act.

I look forward to today's hearing and thank the Chairman and the Secretary.

Chairman CRAPO. Thank you, and Mr. Secretary, you can see there still are some disagreements among us here on the panel. I suspect we will get into some of those today during your testimony. We again appreciate you being willing to come here and report once again to us.

With that we will turn to your testimony. You may begin your statement.

**STATEMENT OF STEVEN T. MNUCHIN, SECRETARY,
DEPARTMENT OF THE TREASURY**

Mr. MNUCHIN. Thank you. Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for inviting me today. One of my top priorities as Treasury Secretary is sustained economic growth for the American people, so I am happy to report that the growth rate of the economy over the past year was higher than the average over the prior 20 years, and included two straight quarters of 3 percent or higher GDP growth. The President promised robust growth, and he is delivering on that promise.

I am here today to speak about the Financial Stability Oversight Council's 2017 annual report. This is an important vehicle for providing Congress and the public with the Council's assessments and recommendations relating to regulatory developments and potential risks to the financial system.

This report emphasizes the importance of economic growth to maintaining a resilient financial system. Since the financial crisis, we have had time to assess the effectiveness of regulatory reforms and consider their unintended consequences. The report recommends that the Council member agencies address regulatory overlap and duplication, modernize outdated regulations, and tailor regulations based on the size and complexity of financial institutions.

The report also discusses a number of risks that the Council is monitoring. One that I would like to emphasize in particular is cybersecurity. The financial system's heavy and increasing reliance on technology increases the risk that significant cybersecurity incidents could disrupt the financial sector and potentially impact U.S. financial stability. Substantial gains have been made, but I want to emphasize the need for sustained attention to these risks.

The report makes a number of recommendations, including creation of a private sector council of senior executives in the financial

sector to collaborate with regulators in order to mitigate cybersecurity threats.

Turning to our growth policies, the Tax Cuts and Jobs Act passed last year was our top priority, and this overhaul of the tax code is already having a positive impact. Because of tax reform, over three million Americans have received special bonuses or other benefits, and over 250 companies have announced investments in their workforces. Companies are announcing higher wages and increased benefits, as well as greater spending on employee training, infrastructure, and research and development. These investments will lead to long-term prosperity, and as companies continue to bring back cash from overseas, our economy will continue to grow.

Let me now turn to some specific priorities for this new year.

I want to commend the houses of Congress for their work on financial regulatory reform. The bipartisan Economic Growth, Regulatory Relief, and Consumer Protection Act is a balanced and thoughtful approach that better aligns our financial system to support economic growth in our communities. Further, the legislation reflects many of Treasury's recommendations from our Executive Order reports released last year. I encourage the Senate and the House to work together to move legislation as quickly as possible.

In December, I wrote to Congress providing notification of my determination that a "debt issuance suspension period" would last until January 31st. Congress has not acted to suspend or increase the debt ceiling. I have determined that the DISP will be extended into February and will be notifying Congress as such. I respectfully urge Congress to act as soon as possible to protect the full faith and credit of the United States by increasing the statutory debt limit.

The House and Senate have been working toward modernization of the Committee on Foreign Investment in the United States, CFIUS. I support the Foreign Investment Risk Review Modernization Act, FIRRMA, and applaud Senators Cornyn, Feinstein, and Burr and Representatives Pittenger and Heck for their leadership on this issue. A modernized CFIUS will enable us to protect our national security from current, emerging, and future threats, while preserving our longstanding open investment policy that is key to fostering innovation and economic growth. I look forward to working with Congress and the relevant committees to advance FIRRMA.

One of Treasury's core missions is to safeguard the Nation by using the powerful economic tools in our arsenal. We will continue to take frequent and ongoing actions to combat threats from malicious actors. These include terrorist groups, proliferators of weapons of mass destruction, human rights abusers, cybercriminals, and rogue regimes like North Korea, Iran, and Venezuela. We continue to review intelligence to identify targets with maximum impact and deny them access to the U.S. and international financial systems, disrupt their revenue streams, and ultimately pressure them to change their behavior.

On housing finance, the current situation of indefinite conservatorship for Fannie Mae and Freddie Mac is neither a sustainable nor a lasting solution. The Administration looks forward to working with Congress to reform America's housing finance system

in a manner that helps consumers obtain the housing best suited to their own personal and financial situations while, at the same time, protecting taxpayers.

I am proud of what we have accomplished so far, and there is more to do. Our country's potential is enormous, which is why Americans expect their Government to enact policies to allow them to succeed and prosper. Treasury's collaboration with Congress is vital to that mission, and we are working every day to make it a reality.

Thank you very much and I look forward to answering your questions.

Chairman Crapo. Thank you very much, Secretary Mnuchin. I appreciated your comments about the Economic Growth, Regulatory Reform, and Consumer Protection Act and appreciate your encouragement that we move it quickly. I also appreciated your comments on housing finance reform. As I indicated, it is currently my highest priority in the Committee.

In the FSOC annual report last year, one recommendation made was that the regulators and market participants continue to take steps to encourage private capital to play a larger role in the housing finance system. I agree with that goal.

Can you elaborate on why it is important for private capital to play a larger role and what steps you believe we can take to further encourage that?

Mr. MNUCHIN. Chairman Crapo, thank you very much. I fundamentally believe in the importance of the 30-year mortgage. I think it is important to the economy, and as we look at housing reform we need to look at Fannie Mae and Freddie Mac as well as the risks in FHA. And I am open-minded to many solutions and I have actually had some very productive conversations with several Members of your Committee on this, and look forward to working with you on them.

I do believe that in order to protect taxpayers we do need to have substantial private capital and risk in front of any type of Government guarantee or Government support.

Chairman CRAPO. Well, thank you very much, and in the context of protecting taxpayers against a Government guarantee, there have been a number of different ideas about how to accomplish that as well, including the idea of private guarantors absorbing losses in front of the Government guarantee. If that were part of the model, do you believe it is important that such guarantors are subject to GSIB-like capital requirements to ensure that the taxpayers are protected?

Mr. MNUCHIN. I think it is very important that there is substantial capital and that the taxpayers are protected, and I look forward to working with you and your Committee, and also feel if there is any guarantee that the taxpayers are paid for putting that up as opposed to explicit guarantees that were not compensated in the past.

Chairman CRAPO. All right. Thank you. And moving to another topic, in the Treasury report on FSOC's designation process, Treasury recommended that the FSOC implement an activities-based or industrywide approach to evaluating systemic risk. Similarly, in 2017, the International Association of Insurance Supervisors an-

nounced the development of an activities-based approach to assessing systemic risk in the insurance sector.

How would an activities-based approach to assessing systemic risk work, and why is it more effective than the current entities-based approach?

Mr. MNUCHIN. I think it is more effective because, to the extent that we look at risky activities across an industry or within a sector, we can look at proper regulation that deals with those issues and eliminates systemic risk.

Chairman CRAPO. Moving to cybersecurity, cybersecurity is one of the most pressing issues, and you mentioned that again in your testimony, that faces companies, consumers, and Governments. The FSOC annual report identified cyberattacks on financial services companies as a potential vulnerability to U.S. financial stability, due to the increasing frequency and sophistication of such attacks.

Where does the FSOC see gaps or shortfalls in cybersecurity today and, frankly, what steps can we take to address this?

Mr. MNUCHIN. Well, I am pleased to say that I do not see any specific gaps today, but I do think this is an area where we need to always be advancing issue, I think, whether it is recent issues we have seen in chips or recent software situation. This is something that we need to be very, very careful, we need to be working in public-private partnerships, we need to have ways of sharing intelligence when it is appropriate, and we need to make sure that whatever the cost, the United States financial system is protected from cyberattacks.

Chairman CRAPO. Thank you. I appreciate your attention to all these issues, and also the willingness you have to engage very aggressively with us on issues as they come forward, and I am sure we will be dealing with you on each of these as well as many more. And again, Mr. Secretary, I appreciate your attendance here today.

With that, Senator Brown.

Senator BROWN. Thank you, Mr. Chairman. Based on the bank threshold in the Wall Street Reform Act, FSOC uses a \$50 billion threshold in its initial factor to determine if a shadow bank could cause systemic risk. The Treasury's November report suggests raising that level. If the Chairman's bank deregulation bill is enacted, is it safe to say FSOC would raise its threshold fivefold and would not put any resources into investigating any shadow bank below 250, as your report said?

Mr. MNUCHIN. I think that is correct and I think there is a general consensus from the regulatory community that the threshold should be raised. And, of course, the Committee could always make certain exceptions if there were significant instances.

Senator BROWN. Well, I challenge that statement. Maybe the regulators appointed by President Trump, not the regulators that have been in office that are leaving, do not say it should be 250, but more on that later.

This bill, then, has other consequences beyond bank dereg. It would mean that the FSOC would be very unlikely to designate a large leverage hedge fund, like Long-Term Capital Management, which, when it failed, had just \$129 billion in assets, leverage of 25-to-1, and more than \$1 trillion in derivatives. With this expo-

sure I think you are making the system less safe, to safe and sound, with those ideas.

Second question. The June Treasury report on banking dereg said if we raise the \$50 billion threshold for U.S. banks we should do the same for foreign megabanks, based on their domestic assets. So if the Chairman's bank deregulation bill is enacted, foreign banks with up to \$250 billion in U.S. assets are going to be deregulated, akin to U.S. regional banks. Correct?

Mr. MNUCHIN. That is correct.

Senator BROWN. So the Treasury report specifically said if we move the \$50 billion threshold up, it is the Department's position we should also move the threshold up for foreign banks. The report says the \$50 billion threshold for CCAR stress test domestic and foreign banks should be raised too.

So to be clear, the Chairman's bill, with your acquiescence, will deregulate banks like Santander that has repeatedly failed its stress test, and Deutsche Bank, basically the only bank that would lend President Trump money after his repeated bankruptcies and botched deals.

The third question, Mr. Secretary. Last night your staff sent to the Committee various classified and unclassified reports, due under the Russia sanctions bill, including an unclassified oligarch's report that looked a lot like the *Forbes* list of Russia's wealthiest men. I hope the classified portion is more detailed and compelling.

Also yesterday, CIA Director Pompeo said he did not see any reduction in Russian subversion of Western elections, nor did he expect them to back off their efforts to interfere in our own upcoming elections. The President reportedly will talk about the need for bipartisanship tonight. He cannot get any more bipartisan than the work that Senator Crapo and I did on the Russia sanctions bill—92-2 it passed. Yet it looks like the President did not impose any sanctions under the mandatory authorities we enacted, nothing to combat Russia's cyberactivity, no sanction on those helping its intelligence and defense sectors, nothing in response to its corrupt privatization of State-owned assets.

So how can sanctions punish Russia interference in Ukraine and in American elections and deter future interference if these sanctions continue to sit on the shelf, unused by the President?

Mr. MNUCHIN. So let me first say I want to commend the TFI group, the Treasury, and the intelligence community who did an enormous amount of work in preparation of the report that we delivered last night.

As we tried to outline in the unclassified version, the list in the unclassified version is senior political people, as well as oligarchs based upon a threshold of \$1 billion or more of—based upon public. So you are correct that the public version does look a lot like the public—

Senator BROWN. I am sorry to interrupt but time is limited. So when are you going to take those sanctions off the shelf and use them, in terms of cybersecurity, in terms of intelligence, in terms of American elections?

Mr. MNUCHIN. There is a substantial amount of work that was done. I look forward to you reviewing the classified report, and we will—

Senator BROWN. No. It is——

Mr. MNUCHIN. ——be doing——based upon that, we will be looking at taking appropriate action.

Senator BROWN. My time is ticking. 98–2 in the Senate, 3 no votes in the House. There is a lot of belief on both sides of the aisle. I hear Senators talking privately about this, that this Congress and the American people do not trust the President on Russia, his closeness to Putin, all those things, and your delay on this, your slow walk, just enforces that last question.

In November, FSOC cited persistent budget deficits as a threat to economic growth, the FSOC annual report. A month later the President, and a partisan majority in the Congress, ignored their own warnings, passing tax cuts for corporations and millionaires, that will add more than \$1 trillion to the deficit. Immediately after passing the budget-busting tax bill, some of my colleagues started to turn toward gutting entitlements under the guise of fixing the deficit.

I listened to candidate Trump come to Ohio for rally after rally after rally. He said he would protect Medicare. He said he would protect Medicaid. He said he would protect Social Security. So it is fair to add \$1 trillion to the deficit for tax cuts and then have colleagues, Republican colleagues, with apparently the President's now acquiescence, to start talking about cutting Medicare and Medicaid and Social Security?

Mr. MNUCHIN. Senator Brown, first let me just comment on your previous comment. I do not think, in any way, we are slow-walking the report that we delivered last night and I we look forward to discussing it with you in a classified setting.

On the issue of the taxes, I think you know, as I have said before, the President, I believe, that with a breakeven of 35 basis points, the tax bill will create growth, it will create enough revenue.

Senator BROWN. Nobody has ever believed that in the past. Why should we believe that now?

Mr. MNUCHIN. Again, I would be more than happy to meet with you and go through the numbers in our economic analysis.

Senator BROWN. But why the acquiescence on the attacks on Medicare, Medicaid, and Social Security, calling them unsustainable when the President promised to protect them?

Mr. MNUCHIN. Again, I have not made those comments, Senator.

Chairman CRAPO. Senator Shelby.

Senator SHELBY. Thank you. Mr. Secretary, thank you for your service. Also, I would be remiss if I did not thank you for your leadership and your steady hand in dealing with the tax reform measure, that a lot of us—maybe not all of us, but a lot of us believe is going to really help our economy, and we see signs of it already in the confidence, at least I see. But congratulations on that.

FSOCs. When you designate an entity that is deemed systemically risky, that is a very, very important designation. I mean, it should not be done on a whim, should it not? It should be done very carefully with a lot of data and a lot of thought.

When we look at insurance companies as an entity, and we look at banks as an entity, there might be some overlap, but two dif-

ferent models, at least I believe. Should they be viewed as such before you make a designation? What is your thought on that?

Mr. MNUCHIN. I think, as you pointed out, banks are very different from insurance companies. They have very different liabilities.

Senator SHELBY. Uh-huh.

Mr. MNUCHIN. And they should be reviewed carefully, which is something I believe we have done at the Committee over the last year.

Senator SHELBY. You have. When you designate—going back to that—when you designate an entity systematically risky, that is a profound thing. Would you agree with that?

Mr. MNUCHIN. I would.

Senator SHELBY. OK. Now I want to shift to something that I hope you will have some play in and some interest in, and that is the infrastructure. We keep talking about infrastructure. How are we going to come up—how is the Trump administration? I think a lot of Democrats and Republicans both know that we need an infrastructure bill. We need to do it. And, of course, it takes money to put that together. We know that.

But how do we use an infrastructure bill, if we come with one, and I hope we will, to tap the private money in America, which you are very familiar with, there is a lot of it out there, that is looking for a better return on their investment? How do we do that, rather than just let the Government deal with infrastructure? Have you thought about that?

Mr. MNUCHIN. We have thought about that. the Administration has put a lot of work into this and the President looks forward to releasing his infrastructure plan shortly and working with Congress. And I agree with you that we should be looking at both Federal money, State money, as well as private money, as we look at infrastructure investment.

Senator SHELBY. But should not the infrastructure bill, from the standpoint of our future economy, the infrastructure in this country is so important to move goods, people, services, and be one of our top priorities? I think it might be.

Mr. MNUCHIN. I believe so, yes.

Senator SHELBY. The Chairman talked about cybersecurity. We know we are in the information age. So is everybody else in the world. We know that we get benefits from this—big benefits—from modern information systems, but they are subject to attack, including our law enforcement, Pentagon, Treasury, Federal Reserve, and so forth.

This is an ongoing risk management thing. I do not know how we get to the bottom of it, but that is a big, big challenge for all of us, and it has got to be for Treasury, is it not?

Mr. MNUCHIN. It is and that is why it is one of my top priorities, Senator.

Senator SHELBY. What should we do first? Should we worry about the financial system? Sure. Should we worry about our electrical grid? Sure. But we also have to worry, first of all, about national security and the implications of penetrating through cybersecurity, do we not?

Mr. MNUCHIN. That is correct and that is why we have a process across all the different agencies that we are focus on this. Homeland Security is responsible for the overall coordination. We are responsible for looking at the financial sector and dedicating a lot of resources to that.

Senator SHELBY. How do you think the economy will continue to grow? I like what I see out there. We feel it. People have got confidence. Do you feel like it is going to continue to move forward?

Mr. MNUCHIN. I do, and I think, as you know, the President is determined that we enact legislation that moves forward on a sustained economic growth, the 3 percent or higher. We are not focused on any one quarter. We are focused on sustained growth.

Senator SHELBY. Thank you. Thank you, Mr. Chairman.

Chairman CRAPO. Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Secretary, you have talked up the economy and the results of the Trump tax plan but I do not think the workers facing layoff at Carrier, Toys 'R' Us, AT&T, Kimberly Clark, Walmart, and GE would share your enthusiasm, and I do not think we should be satisfied with the slowest year of job growth since 2011. So I have a much different view about what we need to do as it relates to the economy.

But I want to get to a specific provision in the Trump tax bill, which gutted the State and local tax deduction and compelled thousands of New Jerseyans to rush to prepay their 2018 property taxes before the start of the year in order to escape being taxed twice on the same dollar. And if it was not bad enough spending the holiday fretting over a tax hike, in came the Grinch, played by the IRS, to tell them they could not deduct their property taxes in 2017, despite paying them that year.

Now this IRS advisory was confusing, frustrating, and, most importantly, was plain wrong—plain wrong. The Trump tax bill specifically prohibited the deduction of prepaid State income taxes, but it made no similar prohibition against prepaid property taxes.

So my question, Mr. Secretary, is do you commit to fixing this fundamentally flawed IRS advisory and stopping the IRS from changing the rules in the middle of the game for working families?

Mr. MNUCHIN. Senator, actually, I do not think it was confusing. The intention for the IRS was actually to put something out that clarified.

Senator MENENDEZ. It is wrong.

Mr. MNUCHIN. What the IRS—

Senator MENENDEZ. Do you suggest that that advisory is right?

Mr. MNUCHIN. Yes, I do. What the IRS advisory—

Senator MENENDEZ. How is that possible that it is right when the legislative text is as clear as day? Section 11042 specifically prohibits 2018 State and local income taxes from being prepaid and deducted from Federal income taxes in 2017. It is silent—silent—on the prepayment and deduction of property taxes. Now whether that exclusion was included intentionally or because of the secretive and rushed process by which the bill became law, the legislative text, through its deafening silence, actually is loud and clear on this topic. And that means the IRS advisory clearly contradicts the law and is nothing more than a back-door attempt to get these

people who should not have—should be able to deduct their property taxes when they paid it.

Mr. MNUCHIN. Senator, what the IRS advisory did is it deferred it to the legal position of the State, and I would be more than happy to meet with you and go through that. The intent was that it would not allow taxpayers to abuse the system, and again, it was intended for clarification.

Senator MENENDEZ. Abuse.

Mr. MNUCHIN. It never said—

Senator MENENDEZ. The system is abusing them. They paid it in 2017. They should be able to deduct it in 2017. I hope that you can get to a point with us that you can help us on this, because it will be bad enough that in the next years they will not have that deduction. But they certainly should get the deduction for the year in which they paid it.

Let me ask you this. The CIA Director Pompeo unequivocally states that he believes that Russia has every intention in meddling in the 2018 election. Do you agree with his assessment?

Mr. MNUCHIN. I defer to the CIA Director on that.

Senator MENENDEZ. You do not disagree with his assessment.

Mr. MNUCHIN. I am not disagreeing with him.

Senator MENENDEZ. Do you agree with the assessment for our intelligence community that Russia used a hybrid of political intelligence and defense tools to meddle in the 2016 U.S. elections?

Mr. MNUCHIN. Again, I am not going to comment on things that I have classified information on—

[Overlapping speakers.]

Senator MENENDEZ. It is not a question of that. There has been plenty in the public sphere to have a judgment on this, because your department actually has jurisdiction over the enforcement of sanctions. So if you do not believe those things are true then maybe that goes to your view on sanctions policy.

Mr. MNUCHIN. Senator, I did not say I did not believe it was true. I said I was not—

Senator MENENDEZ. You did not tell me you did.

Mr. MNUCHIN. —going to comment on—

Senator MENENDEZ. It is a simple—it is not classified.

So yesterday the Treasury Department identified senior political oligarchs and political figures in Russia, as mandated in the Countering America's Adversaries Through the Sanctions Act, which I was one of the coauthors of, which this body passed 98–2. That law provided the tools and a deadline of yesterday to go after entities who support the very same Russian intelligence and defense agencies. However, is it not true that yesterday the Trump administration failed to apply a single new sanction against anyone who might be supporting these Russian efforts?

Mr. MNUCHIN. Senator, we very much agree with the purpose of the report. There was an extraordinary amount of work. I assume you have not yet reviewed the classified version. I look forward to—

Senator MENENDEZ. Just give me a simple yes or no, as my time—

Mr. MNUCHIN. What I want to—

Senator MENENDEZ. Have you, the Administration, imposed any new sanctions on any of these entities?

Mr. MNUCHIN. Again, the intent was not to have sanctions by the delivery report last night. The intent was to do an extremely thorough analysis. It is hundreds of pages, and there will be sanctions that come out of this report.

Senator MENENDEZ. The law is pretty clear and it seems to me not only did you have to describe the entities but you also had to pursue sanctions, and I will look forward to continuing to press that question of the Administration.

Chairman CRAPO. Senator Heller.

Senator HELLER. Mr. Chairman, thank you, and Mr. Secretary, thanks for taking time being with us today.

I am sure you recall last August when you came to Las Vegas, had a roundtable with some prominent business leaders in my State. And what I am pleased about is that the promises and the questions, the concerns that were shared at that roundtable were delivered 4 months later, in December, with the tax bill that did file.

Last week I had a town hall meeting out of my office with NFIB, and we called thousands of small businesses in the State of Nevada. Hundreds were on the line. And questions were asked, specifically with this new tax bill out there, what do you anticipate your business practices will be for this year? Ninety percent—90 percent of the small businesses in Nevada said that they were planning on expanding their business, that they are going to hire more employees, that they are going to provide bonuses, pay raises, and increase the minimum wage for their business. Ninety percent said they would either do parts or all or some of those business activities.

Now, it was not a professional survey, by any means, but I was just pleased to know that what the White House and what your department attempted to do in December, I do believe, are being delivered on what we are seeing in the State of Nevada.

We have had South Point Casino said it is going to double its 2,300 full-time workers' bonuses. We have seen Fontainebleau developers say that they are going to resume a stalled project and that the effects of that will be creating approximately 10,000 jobs. And we are seeing this across the State of Nevada and I want to thank you, the White House, and all your efforts of putting us where we are today and seeing this kind of expansion.

So what do you anticipate economic growth being this year, from what you originally anticipated?

Mr. MNUCHIN. Senator, as I have said, and, first of all, thank you for your comments. I think, as you know, the tax rate on small businesses is the lowest it has been since 1930s and we are seeing that in terms of a pickup in growth.

We would expect, again, over the next several years, sustained economic growth of 3 percent or higher.

Senator HELLER. I was in your office and you showed me that comment, written note from the President, saying that he wants 5 percent growth. When are we going to get there?

Mr. MNUCHIN. He has delivered high ambitions for us, as you know.

Senator HELLER. What positive effects do we expect to see in Nevada over the next couple of years?

Mr. MNUCHIN. I am sorry. Could you repeat that, Senator?

Senator HELLER. Could you tell us what positive impacts we will see in the next couple of years through growth and business activities in the State of Nevada?

Mr. MNUCHIN. Well, I think one of the most important things is that we expect to see wage inflation. For the average America, their wages have really gone nowhere. It has been a great time for financial people, and one of the benefits we expect to see, of the tax bill, is wage growth.

Senator HELLER. What do you anticipate with capital coming back into the country? Apple just announced a new data center expansion in Reno, and it is a \$30 billion capital expenditure over the next 5 years. Can we anticipate, or what do you anticipate over the next 5 years with capital coming back into the United States due to this tax bill?

Mr. MNUCHIN. We expect a lot. I had the pleasure of meeting with Tim Cook recently, to talk about their investment. Obviously they are bringing back hundreds of billions of dollar. They are paying a very large tax to do that, and they have made a major commitment to invest in the United States.

I also had the opportunity to meet with many CEOs of international companies that, as a result of the tax bill, are now committed to bring manufacturing into the U.S., and we look forward to that.

Senator HELLER. Mr. Secretary, I am pleased that you are here, and to the Chairman, you know, we are seeing some huge expansions in the State of Nevada. In fact, some of it is actually causing problems. In northern Nevada our housing starts are about 20 percent behind. With the kind of expansion that we are seeing that has come from this piece of legislation that was passed in December, the Jobs Act is doing exactly that, technology and technical companies coming to the State of Nevada. We can list them, from Amazon to Tesla to Apple. The list of organizations that are moving into both the northern and the southern part of the State has been pretty incredible. And I am just pleased that we have the Treasury Secretary in front of us today to expound on some of these issues, and I want to thank you for the time.

Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, Senator Heller. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman and Ranking Member, and thank you for being here, Secretary Mnuchin.

Are you familiar with the Marketplace Fairness Act, sales tax?

Mr. MNUCHIN. Yes, I am.

Senator TESTER. Will you and the President oppose creating this?

Mr. MNUCHIN. I think the President is—fundamentally supports the idea of some type of sales tax across the board and we look forward to working with you and others on that.

Senator TESTER. So what you are saying is the President would support a national online sales tax.

Mr. MNUCHIN. In my conversations with the President on that, he thinks that there are aspects of that that he likes a lot and he looks forward to working with you and others on it.

Senator TESTER. Will you direct the Treasury Department to conduct a study on what I believe would be burdensome costs on small businesses in non-sales tax States?

Mr. MNUCHIN. I would be more than happy to work with your office on that, and we think there are ways of dealing with that.

Senator TESTER. I would love to have that conversation, to figure out how we could do that.

In a previous question on entitlement reform, you had said that you had not made the commitment to protect Social Security and Medicare, that the President had. Does that mean that you are looking to do reductions in Social Security and Medicare?

Mr. MNUCHIN. Not at all.

Senator TESTER. What does that mean then?

Mr. MNUCHIN. It just meant—again, it was a comment I was referring to, at the time. The President has made that commitment and I have every reason to believe he will continue with that commitment.

Senator TESTER. And do you believe, personally, that you will support him in that commitment?

Mr. MNUCHIN. Of course. Whatever the President wants to do, I will support.

Senator TESTER. OK. Do you believe that a 30-year fixed rate note would exist without a Government guarantee?

Mr. MNUCHIN. I think that a 30-year—well, again, I think it is critical that we have a 30-year mortgage. I do not believe that the private markets, on their own, could support it. So I think one of the things that we are looking at is various different solutions around that.

Senator TESTER. I gotcha and I do not disagree with any of your comments that you talked about with the GSE potential reform putting private money ahead of taxpayer dollars. The question that I have, and it relates to a previous person who was sitting at that desk a few days ago, that said he believed that the 30-year fixed rate mortgage would occur without a Government-backed guarantee. By your answer, I think you disagree with that. Do you believe that a 30-year fixed rate, even with public dollars up front, you need that Government backstop at some point in time?

Mr. MNUCHIN. Again, I am not trying to be cute.

Senator TESTER. No.

Mr. MNUCHIN. I think this is a complex thing. What I do believe is that Fannie and Freddie would not be able to exist without either an implicit or explicit Government guarantee, and if there is an implicit guarantee I would want taxpayers to be paid for it. So this is something that we are working with people and looking for solutions.

Senator TESTER. It is very complicated, but I agree with you. We need a 30-year fixed rate mortgage in this country and I think that as we talk about GSE reform, and there is plenty of options out there on the table, that we need to make sure that we do not do something that puts that at risk, because it would have incredible impacts on housing market and affordability housing, and all of the above.

Mr. MNUCHIN. I agree with that. Thank you, Senator.

Senator TESTER. Good. Good.

Let us talk about FSOC for a second. It was put in, in Dodd-Frank, for nonbank financial companies—I do not need to give you a lecture on this. You know that. The FSOC has basically taken the companies that were designated and de-designated them. I assume that you did research on that and found out that they were not systemically risky?

Mr. MNUCHIN. Actually, that is not the case. The only company that we de-designated as a result of them not being financially systemic was AIG, where they had de-levered and cut their risk—

Senator TESTER. OK.

Mr. MNUCHIN. —significantly, and that is why that judgment was made. That is the only company we made that judgment.

Senator TESTER. So that decision was—the de-designation for Prudential or MetLife did not happen?

Mr. MNUCHIN. Again, the decision on MetLife had nothing to do with the risk of MetLife. The decision was there was a recommendation as it relates to a legal case that had nothing to do with the riskiness, and MetLife could, indeed, be subject to designation in the future.

Senator TESTER. OK.

Mr. MNUCHIN. So the issue was more around a legal issue.

Senator TESTER. And Prudential?

Mr. MNUCHIN. Prudential, again, would follow the same issues.

Senator TESTER. OK. So I guess the question is, could you confirm if the council is still functioning and still actively looking at companies, financial products, and assess their risk to the financial system? Are they still working?

Mr. MNUCHIN. Absolutely.

Senator TESTER. OK. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you. Senator Cotton.

Senator COTTON. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Senator Brown started his remarks speaking of a Swiss ski resort. I presume he was referring to Davos, where the President addressed the World Economic Forum last week. To my knowledge, in Davos, all they do is do is have their party once a year, but in another Swiss ski resort, Basel, they purport to exercise great authority without accountability, at the Financial Stability Board.

So let us address what happens in that Swiss ski resort, Mr. Secretary. I, and other Members of the Committee, recently sent the Administration a letter which raised concerns about the operation of the Financial Stability Board. We are concerned that it is more into a kind of global regulatory body, using its peer review mechanism as a quasi-enforcement tool to pressure U.S. companies into adopting global standards. I am concerned about that kind of regulatory creep into U.S. jurisdictions, especially considering how dissimilar our financial markets are from any foreign markets. For example, we have thousands of small lenders, we have independent asset managers, and we have an insurance industry regulated by our States, primarily.

So simple question. Are FSB rules voluntary or binding?

Mr. MNUCHIN. They are voluntary.

Senator COTTON. Are they suitable to be used by ex-Presidents and U.S. courts, by regulatory agencies, or in private litigation?

Mr. MNUCHIN. Again, I am going to defer to the lawyers on that, but my view is not necessarily.

Senator COTTON. Thank you. In 2015, four Chinese banks sought an exemption from an FSB rule related to how much capital they have to hold. Given that I agree with you that these rules are voluntary, it is strange that they would have to seek an exemption from such a rule. Can you imagine a scenario in which a U.S. bank or firm would have seek an exemption from an FSB rule?

Mr. MNUCHIN. Again, the U.S. banks are regulated by the U.S. regulators. I think the purpose of the international standards, from our standpoint, is to make sure that there is a level playing field for our banks and that to the extent that foreign banks have a lot less capital, that there are certain standards that they would adhere to. But that is not legally binding.

Senator COTTON. Thank you. Let us talk now about the FSOC process for identifying systemically important financial institutions, especially under the last Administration, as it relates to the FSB. In July 2013, the FSB determined that three U.S. insurers—AIG, MetLife, and Prudential—were globally systemic important insurers, but at that time only AIG had been designated by the FSOC as a systemically important institution in the United States. Prudential was not designated as a SIFI by FSOC until September of 2013, MetLife not until December of 2014.

Since the FSB operates by consensus, however, this means that for months before the FSOC designated either Prudential or MetLife as SIFI or predecessor at Treasury and the Chair of the Fed, two of the most important members at FSOC, had already determined as members of the FSB to designate Prudential and MetLife as globally systemically important. So I would assume that if a firm is systemically important on a global scale, it must be systemically important in its own home country.

I wonder, then, how the FSOC designation process, in the last Administration, for Prudential and MetLife could be considered fair and objective. The Treasury and the Fed, after all, had already determined, as members of the FSB, that they were globally systemic. Do you believe that this decision was simply a show trial by the FSOC in 2013 and 2014?

Mr. MNUCHIN. Senator, since I was not there I cannot comment on specifics, although I understand your concerns. I would say, fundamentally, I do believe that there should be better transparency at FSOC to the extent that companies are designated. They should understand why they are designated, and the basis of the risks.

Senator COTTON. Can we be certain that we will not see a repeat of such a scenario in which the FSB designates a U.S. firm as globally systemically important before the FSOC designates it as systemically important in the United States?

Mr. MNUCHIN. I would not expect that to be the case. Thank you.

Senator COTTON. Thank you. I think this is a very important issue. Financial experts around the world have not exactly covered themselves in glory for the last 25 years. Our Nation is not just the United States, but in Europe have faced some turbulent political times, with populist candidates and parties, on both sides, right and left, across our Nations, defeating more conventional politicians and parties because of the failure of our country's leaders to

deliver stable, prosperous conditions for our citizens. I think it is important to remember that we are countries that are governed by our citizens, not by our experts, certainly not by unelected experts at Swiss ski resorts.

Chairman CRAPO. Senator Schatz.

Senator SCHATZ. Thank you, Mr. Chairman. Mr. Secretary, thank you for being here. I want to try to get in three questions. The first is about the debt ceiling and the debt limit. I heard that the Vice President was at least open to the notion of repealing the statute overall. That is very attractive to me. Having been here under a Democratic President, now under a Republican President, and with a Democratic Senate and with a Republican Senate, I can say, definitely, that utilizing the debt ceiling statute as a sort of opportunity to take a policy ransom only harms our country.

So I am wondering whether you would be willing to work with us on a statutory fix to just repeal this thing once and for all. I understand the political difficulty of doing it, because, on the record, you are increasing the amount of debt that the country is under. But the fact of the matter is there is no evidence that having a statutory requirement that we do this every 6 months or every 12 months or 18 months reduces spending at all, reduces the deficits at all.

So I am wondering whether you could work with us, and we especially, frankly, need a little political support on the Republican side. I know they want to get rid of this as badly as we do, but they need cover from the Administration. We will need to work with you on this if you are open to it.

Mr. MNUCHIN. I have spoken to both the President and the Vice President and we are very open to bipartisan solutions to figure out something as an alternative to the current system that I think many of us would agree does not work well.

Senator SCHATZ. Thank you. Your comments on the dollar in Davos, I think, surprised a lot of people, raised a lot of eyebrows. I just want to give you an opportunity to expand on them or clarify them, if you wish.

Mr. MNUCHIN. Sure. So, thank you. I have tried to clarify this now many times. This was clearly a situation where, at a press gaggle, I made a comment that had three parts to it, that was extremely balanced and very specific. It was not anything new. And the press took one part out of this and kept on playing it over and over.

So let me be very clear. I absolutely support a long dollar, a strong dollar, as being in the long-term best interest of the country, and I strong support—we have a free currently market that we do not intervene in and have rely upon the most liquid market in the world. So the short term is not a concern of us and it was no way intended to talk down the dollar, whatsoever.

Senator SCHATZ. Thank you. Yesterday the Administration declined to impose sanctions required under the bipartisan Russia Sanctions Law that passed with overwhelming majorities from the House and the Senate. It is not clear which parts are waivable and which parts are not. We are still doing the analysis. But what is clear is to the extent that there is discretion to waive or delay, the

Administration has to have factual findings. And so can you tell us what those findings are?

Mr. MNUCHIN. Senator—and will repeat this again. I think that is a very unfair characterization of what we have done, OK, as I have said. There was an extraordinary amount of work that went into this. The classified report is hundreds of pages. I look forward to Congress reviewing this, OK? Our sanctions going forward will be based upon a lot of the work that the intelligence community did. It was our interpretation that we had to deliver the report to Congress yesterday, which we did and we fulfilled. Again, I want to commend a lot of career professionals, the Treasury—

Senator SCHATZ. You are saying you did not waive or delay any sanctions?

Mr. MNUCHIN. We did not waive or delay. There will be, as a result of this work, we are looking at—

Senator SCHATZ. They are just not implemented yet.

Mr. MNUCHIN. Again, that is—

Senator SCHATZ. That sounds like a delay.

Mr. MNUCHIN. No, that is not a delay. What it was was, I think, as you know, our sanctions are based upon an enormous amount of intel work. There was an enormous amount of work that went into creating this report, and that is what we did. And now we will take the basis of that report and look at, kind of, as we do in the normal course, where it is appropriate to put sanctions.

Senator SCHATZ. OK.

Mr. MNUCHIN. So this should in no way be interpreted as we are not putting sanctions on any of the people in that report.

Senator SCHATZ. OK. I have got it. And one final question. I will take it for the record. On SIFI designations I am trying to understand—the underlying statute, right, is about the financial stability of the system, and you seem to be introducing a new criteria for consideration, which has to do with the burden on the institution that is designated systematically significant. And I am trying to figure out why that would matter under the policy objectives of the law itself. If we are trying to figure out whether something is systematically significant, it actually should not matter whether there is a burden on the institution designated. If we wanted to provide you with that discretion, we would have written the law accordingly. And I will just take that for the record. Sorry for going over.

Chairman CRAPO. Thank you. Senator Corker.

Senator CORKER. Thank you, Mr. Secretary. Thank you for being here. As you know, we talked a lot about the tax reform, a great deal, in our office. I will have to say I was surprised, I saw Christine Lagarde at the event last week and I went there because of my foreign policy activities, and I will say that she had revised upward world economic growth because of what the United States has done, which was quite shocking to me, actually, and to see what other countries are doing in response to what we did with tax reform is pretty amazing. So I do want to say it seems to be having an impact far beyond what we thought it would have, just on our own country.

On the Russia issue, just to my friends, I am very vested in this. I was a big part of this passing, working very closely with Crapo and Brown. I actually think what they have done is exactly the

right thing. We gave a period of time to warn people about doing business with Russia. That was the purpose of it. Our diplomats were involved in that. They did keep numbers of transactions from occurring. They have put together this report and now the process is that they will begin sanctioning.

So just for what it is worth, as someone, as you know, that is more than glad to offer criticism if I think it needs to be offered, in this particular case I do think they have handled it in the way that it was supposed to be handled. I do look forward, though, to sanctions being put in place for those violators.

On the issue of housing finance reform, which Senator Crapo brought up earlier, I know that you have been very involved in this in the past, understand it well. Let me just go through a series of questions quickly.

The conservatorship that we now have is unsustainable. Is that correct?

Mr. MNUCHIN. Yes, I believe so.

Senator CORKER. And if we have a new model of housing finance reform—and there are people on both sides of the aisle that are working together and have worked together in the past—if we have a Government guarantee in the future, would it not be your preference that that be at the actual security level and not at the entity level?

Mr. MNUCHIN. That would be my preference.

Senator CORKER. So I think most of us understand, whereas as last time, taxpayers had to bail out, with hundreds of billions of dollars, the entities. What we really care about is the individual bars and that their securities are guaranteed. Is that correct?

Mr. MNUCHIN. That is what would create a sustained liquid market.

Senator CORKER. And I assume that if we were able to pass something here that you would want significant private capital in advance of an explicit guarantee, where if we are issuing guarantees, whereas was not the case in the past, these whatever entities are actually paying for those, so the Government is getting something for the eagle stamp, which is causing that 30-year mortgage to be guaranteed. Is that correct?

Mr. MNUCHIN. That is correct. So taxpayers would be compensated for any unlikely risk.

Senator CORKER. And I assume if we were to put in place a new regime, we would want to do what we could to end the too-big-to-fail situation that we have today. Is that correct?

Mr. MNUCHIN. I believe so.

Senator CORKER. OK. So let me just—in the event we do not act, as you know we passed something in years past called Jump Start, which said that we could only revise these entities through a process of us acting. That ended December 31st at midnight. So now the Administration, if they so chose—and I think you have committed to the fact you are not going to leave things as they are. What would be your options, if we do not act—and I hope that we will? I mean, what would be your options with these entities?

Mr. MNUCHIN. There are certain administrative options that we have. These entities are very complicated. I would just say my

strong preference would be to work with Congress on a bipartisan basis to reach a long-term solution.

Senator CORKER. Yeah. But in the event this great bipartisan-ship does not survive and we do not get this done—it is a very complicated topic—what are some of the steps that you might take? For instance, I know that in past Administrations the notion of putting these entities into receivership and moving forward with a clean slate has been laid out. Is that something that you have thought about?

Mr. MNUCHIN. Again, we have thought about and considered lots of things. I do not really want to go through, in this format, publicly, all the different alternatives. You and I have spoken. I would be more than happy to come see you. But there are lots of alternatives. I just want to be careful, given that they do have different market impacts.

Senator CORKER. Well, I appreciate that and I do appreciate your leadership on this leader and extreme knowledge. And I would just say that, Chairman, I know this is one of your goals. I actually believe that we have got an opportunity to do something—it is a very complex topic—that matters. We have an Administration that is willing to work with us. And I think, for the first time, we have an opportunity, because of just all the things that have occurred, that we have a lot of interest out there. Let us face it. I mean, we have people who have shareholder—we have shareholders in these entities today. And I understand some of the rubs that have existed there.

I think we have got an opportunity, though, to really deal with all of the interest in a manner that is fair, but also move our Nation ahead in a manner that we do not have these two behemoths that basically are 100 percent, right now, backed by the Federal Government, and I hope we will get there.

Chairman CRAPO. Thank you, Senator. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman. So after the 2008 financial crisis, Congress created the Financial Stability Oversight Council, in order to monitor the risks in the financial system, and one of FSOC's main duties is to "identify gaps in regulation that could pose risks to the financial stability of the United States."

Now, Mr. Secretary, you are the head of FSOC. Despite that role, you appear to support a bill that this Committee has passed that would roll back the rules on banks between \$50 billion and \$250 billion in assets. That is about 30 of the 40 largest banks in this country.

So what I want to understand today is why you are so confident that that would not pose a risk to the financial stability of the country. So, Mr. Secretary, how much does these 30 banks hold, collectively, in assets—deposits, securities, and so on?

Mr. MNUCHIN. Well, first of all, I think that we have very significant regulators that will continue to regulate—

Senator WARREN. But that is not my question. Excuse me, Mr. Secretary. I just asking you a straightforward question. We are talking about changing the rules—

Mr. MNUCHIN. Yes.

Senator WARREN. —that 30 of the 40 largest financial institutions would lose their designation, automatic designation, as sys-

temically significant financial institutions. And I am just asking you, that 30, how much do they collectively hold in asset?

Mr. MNUCHIN. It is a large number.

Senator WARREN. A large number.

Mr. MNUCHIN. You have it. I do not have it in front of me.

Senator WARREN. How about \$4 trillion?

Mr. MNUCHIN. It is a large number.

Senator WARREN. How about \$4 trillion? Does that sound about right?

Mr. MNUCHIN. Yeah, that is correct.

Senator WARREN. OK. And that is about what portion of the GDP?

Mr. MNUCHIN. Again, that is higher—

Senator WARREN. That is about a quarter of the entire GDP. During the 2008 financial crisis, do you know how much the taxpayers had to pay out in bailout money to those 30 of the 40 largest banks in the country, in order to keep them up and floating?

Mr. MNUCHIN. Again, I assume you have that number there too, so I do not have it in front of me.

Senator WARREN. It is \$50 billion, nearly \$50 billion.

So I am a little surprised that as the head of FSOC and the Secretary of the Treasury that you would support a bill without knowing how much you are actually reducing the regulation on it in this giant financial institutions. These banks hold the equivalent of about a quarter of the entire economy. They got \$50 billion in bailout money, less than a decade ago, and yet you think we can roll back, reduce our oversight of them now.

Now, so let me ask. Do you think that these \$50 billion to \$250 billion banks cannot pose a risk to the financial system?

Mr. MNUCHIN. Again, there could be banks, OK, that do pose a risk and could be designated. The purpose of this is, many of those banks are large community, regional banks that—

Senator WARREN. Excuse me. I am sorry. Are you saying that a bank of \$200 billion is a community bank?

Mr. MNUCHIN. No. That is not what I am saying. I am saying they are regional banks, OK.

Senator WARREN. And are you saying regional banks cannot pose a risk to the financial system?

Mr. MNUCHIN. No. I did not say that. What I said is that many of those banks do not, OK. This is something that I believe there is bipartisan support for.

Senator WARREN. And my understanding is—

Mr. MNUCHIN. Again, I think—

Senator WARREN. —if they do not pose a risk, you can always alter, under the current rules, how you regulate them. The question is the immediate designation so that you keep them on the watch list.

You know, it is clear to me that these banks do pose a risk to the economy, and that is the reason that Congress said they should be on a watch list.

But let me take a specific example. In the years leading up to the financial crisis, Countrywide Financial issued one out of every five mortgages in the country. It did more subprime and teaser-rate mortgages than almost anyone, and it turned around and sold

them to Wall Street banks. It basically created all these grenades, pulled the pins out, threw them into our economy, and helped blow up the American economic system. At the height of its impact on the financial system, about 18 months before the crash, Countrywide was a \$200 billion bank, which is actually smaller than some of the banks that would be deregulated by this bill.

So my question is, Mr. Secretary, why would you be so eager to take these banks off the watch list, to deregulate it, and make it easier for them to follow whatever practices they want to follow?

Mr. MNUCHIN. First of all, Senator, I share your concerns about Countrywide. I think there was lots of mistakes that went on there, particular with the mortgages that they underwrote and lots of blame to go around.

Again, we believe that these entities, below this side, can be regulated by their primary regulators. But let me just say, this is something that requires bipartisan support and it is up for Congress to decide whether they want to raise the limits.

Senator WARREN. Well, thank you, Mr. Secretary, but as I understand it, you have been pushing on raising the level from \$50 billion to \$250 billion. If you think that means that we will be taking on more risk in the system—and I think that is what it means—I wish you would tell us so.

You know, the banks have record profits right now. They are rolling in money. They just got a giant tax giveaway. They have got even more money. They do not need another chance to blow out this economy.

Thank you, Mr. Chairman.

Chairman CRAPO. Senator Toomey.

Senator TOOMEY. Thank you, Mr. Chairman, and Mr. Secretary, thank you for joining us once again. Let me just stay on this topic, since my colleague from Massachusetts has brought it up. I think an important point that needs to be stressed here, and I am curious to see if you agree, Mr. Secretary, but these banks that are \$50 billion to \$250 billion, and under this bipartisan regulatory relief measure, would no longer be automatically designated as SIFIs, they are extremely heavily regulated anyway. Outside of a SIFI designation, absent a SIFI designation, is it not true that all of these banks are subject to a huge raft of regulations that has nothing to do with the SIFI designation?

Mr. MNUCHIN. That is true.

Senator TOOMEY. Right.

Mr. MNUCHIN. In many cases they are probably regulated by as many as four different entities.

Senator TOOMEY. Right. Multiple regulators. And is it not also true that these banks now have huge capital standards, the industry is generally extremely heavily capitalized. Is it not also true that they have very high liquidity requirements, new requirements that did not exist prior to the crash, and is it not also true that most of these entities engage in pretty ordinary, plain vanilla banking activities as opposed to the more exotic, complex, and interconnected international business of the truly enormous banks? Are those all relative fact?

Mr. MNUCHIN. They are all true statements.

Senator TOOMEY. Well, I think those are the reasons why it is perfectly reasonable to not automatically designate, for yet another regulatory overlay, those banks that do not create this systemic risk.

Let me briefly thank you and congratulate you for your work and that of your team on tax reform. You folks in your organization were terrific to work with, and the collaboration between the Administration and Congress allowed us to produce something that is enormously constructive. I think you mentioned, in response to a question, that it is the view of Treasury that we are likely to have approximately 3 percent economic growth for some time. Did I understand that correctly?

Mr. MNUCHIN. That is true, and I just want to particularly thank you and Senator Scott and others who worked very closely with us on the tax bill.

Senator TOOMEY. Well, thank you. I would just point out that the Congressional Budget Office forecasted, prior to the tax reform, that our economic growth would average 1.9 percent. We are now at approximately 3 percent before the tremendous benefits of this tax reform have fully kicked in, and we are already at the 3 percent. If we sustain anything close to 3 percent, just for the record, the Federal Government will take in much more revenue as a result of a bigger economy than we were projected to take in with 1.9 percent growth. Is that true?

Mr. MNUCHIN. That is very accurate.

Senator TOOMEY. And I think it is a very important factor.

I want to touch briefly on the discussion on mortgages. I am eager to see us make some progress on this. I would—I am pleased that there seems to be a consensus that we should have private capital in front of taxpayer risk on guarantees.

I would disagree with your view, but this is understandably a subjective matter, that a Government guarantee is a necessary precondition to have a liquid 30-year mortgage. As you know very well, the average life, or the duration, however you choose to measure it, of a 30-year mortgage is much less than that, typically depending on interest rates and how you look at it, anywhere, maybe 7 to maybe 12 years is about right. And we have a number of other nonguaranteed 30-year securities that play a very important role in the capital market.

So I would just urge us to consider what I think is a very likely probability that we could have a very robust 30-year mortgage market without requiring the taxpayers to be at risk.

Very quickly—I am running out of time—Mr. Chairman—Mr. Secretary, North Korea, we are seeing stories now, in yesterday or today's *Wall Street Journal*, reports behavioral changes by the regime in North Korea that might be linked to the sanctions that are making fuel, for instance, more difficult for them to obtain. I hope that is true. I think that strikes me as constructive. But I and my colleague on the Committee from Maryland, Senator Van Hollen, have legislation called the BRINK Act, which I think you are aware of, and which your staff has been very helpful. This would require additional round of sanctions against financial institutions that are facilitating business with North Korea. I think this is very impor-

tant and I hope you will support our effort to get that done. It came out of this Committee with a unanimous vote, I believe.

Mr. MNUCHIN. Thank you.

Chairman CRAPO. Thank you. Senator Heitkamp.

Senator HEITKAMP. Thank you, Mr. Chairman, and thank you, Secretary, for coming. Just a couple of kind of follow-on points. Obviously, no one wants to put the financial institutions in jeopardy or in any way limit the ability of the economy to thrive. I think it is critically important that we make the public understand that we simply went in the bill from designating automatically to basically allowing the regulators to designate some entity as a SIFI. We have not abandoned that process, and so I want to make that point.

I also want to make another point. I think it is fascinating when people hear CBO statistics but they do not want to take all of CBO. It is called cherry-picking. Cherry-pick the statistic that most makes your argument, whether it is we are only going to have a 1.9 percent projected growth when the growth has been over 2 percent for a prolonged period of time.

So I want to talk a little bit about CBO projections, because the love fest that we are having here needs to have a little discussion about CBO forecasts on deficits, which, as you know, Moody's has recently issued a report on what they think are the econometric considerations and results of the tax bill. It is not exactly consistent with the story that we are hearing today.

So CBO forecasts that the Administration's \$1.5 trillion tax bill will send deficits to 4.6 percent of gross domestic product by 2020, versus 3.6 under the forecast made last July. So, you know, talking about they were forecasting lack of growth. Obviously, the forecast today is that we are growing the debt.

The publicly held debt, which doubled as a shared GDP during and after the recession was projected, before the tax cut, to rise from 78 percent this year to 91 percent over the coming decade. The CBO now expects the tax change to send this ratio to 97.5.

You know, if we are going to use CBO statistics, let us use CBO statistics. And this is—it is like we handed a credit card, and at the same time we handed a credit card, with debt on it, to the next generation, we are failing to fix over 50,000 bridges. That is another way to hand debt and deficit on.

And I know the Administration is looking at an infrastructure plan that could, in fact, be adopted here. It is not going to be robust enough. Right now, if you look at the Corps of Engineers, the Corps of Engineers has a queue of projects. If they do not get another dime about what they are doing, it is going to take at least 17 years, in current dollars, to finish those projects.

So we have now made a choice. We have made an economic choice and we have made an economic gamble. But let us not pretend that we have not taken a risk here, that this is all rosy. Do not pretend that we are being fiscally responsible every day that we are here.

And so I am going to leave it at that. I want to talk about something that hits people every day, and that is the insecurity and multi-employer pensions. We have got a plan, which the Ranking Member has ably presented, the Butch Lewis plan. It is incredibly important to thousands of North Dakotans, thousands of people.

The President promised to help exactly these people, who now are being threatened with dramatic cuts in their pensions. Will this Administration support the Butch Lewis bill and help us get it on the spending package?

Mr. MNUCHIN. First of all, let me thank you for your comments on the regulatory issue, because you are right, it does not preclude the regulators from designating people. I think that was an important point.

On the multi-employer pensions, it is a very complicated issue. I have had the opportunity to study this the last year, and meet with, actually, workers on this issue, and we look forward to working with you on different solutions.

Senator HEITKAMP. But what is your plan? These are exactly the people the President promised that he would represent, the forgotten people. And we stand alone on this side, trying to fix this. We have not gotten a lot of help from the other side of the aisle. We need you guys. We need the Administration that has made a commitment to stand up for these workers who are threatened with, in my case, some 70 percent reduction in their pensions. That is unfathomable. That is unspeakable.

And so you can you help us, and what is your idea? If you do not like Butch Lewis, what is your idea? But let us get this done.

Mr. MNUCHIN. Well, we look forward to working with both parties on this.

Senator HEITKAMP. No. That is not—you know, I hear that all the time. “I look forward to working with you.” You know what? This problem has been hanging out there. We have a solution on the table. We need a result. It is not enough to have a process. We need a result for these pensions. And I want to thank the Ranking Member for the excellent work that he and his staff have done on this. We are proud to stand with you. And if that is not the solution, tell me what is. But these folks need to be made whole.

Chairman CRAPO. Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman. Secretary, good to see you again. Let me say, at the beginning, as Senator Toomey did as well, thank you for your hard work on the tax reform package. You have helped to accomplish something that has not been done in over 30 years. And specifically, thank you for helping the IRS get the new withholdings done in time for, hopefully, the February 15th paychecks. My understanding is that somewhere around 8 out of 10 employees will see more money in their take-home pay. That is significant progress for folks who are living paycheck to paycheck. They are going to have a greater appreciation in a tangible way of the success of this Administration and, frankly, of your leadership. So thank you for that.

I would also like to say thank you because between the President's Executive order last spring and the Treasury's report last November, the Administration has made solid progress on the issue of nonbank SIFI designations. But imagine getting pulled over for speeding in a neighborhood without any speed limit sign. It is kind of how you get designated a SIFI, from a nonbanking perspective. Then imagine the ticket does not have any instructions on how to pay it. That is how you find your way out of being a SIFI.

And I would like to make sure that folks back at home who are not involved in the financial industry at all understand and appreciate the complexity of something that is as profound as SIFI designation, but to do so in language that we all understand and appreciate. And that is just how dizzying this process is for the average person to understand and appreciate, but the impacted on those folks, because of designations, is significantly higher costs in doing business.

There should be clarity around what gets you labeled as a SIFI and what gets you off of being designated. Without a doubt, FSOC should release public explanations for its designations.

So my question for you, and I know that you agree with much of this, is what specific steps are you and FSOC taking to bring about these needed reforms?

Mr. MNUCHIN. Thank you, Senator, and I thought that was a very good and interesting analogy. So I share your view on transparency. It does not mean that people cannot get tickets, but we have got to post the speed limit.

So we are working with the Committee on looking at guidelines and trying to figure out how we can have more transparency in the process.

Senator SCOTT. Thank you. What is the level of involvement of other Council members in recent FSOC decisions?

Mr. MNUCHIN. Very active.

Senator SCOTT. Good. There have been some questions about that and I think it is important for us to recognize that FSOC is still meeting, still actively involved in the process.

Mr. MNUCHIN. Absolutely. We have had public and private meetings and there has been robust discussion at the principles and the staff. A lot of work went into what has been done this year.

Senator SCOTT. Thank you.

Next question. Not Congress, not you, but the district court now requires a cost benefit analysis, which I support. My question is can you walk me through what a FSOC cost benefit analysis will look like, and what is taken into consideration?

Mr. MNUCHIN. We are working on that and as we develop those thoughts we look forward to coming to your office and reviewing with them before they are implemented.

Senator SCOTT. That will be an important part of the process to understand it before it happens. Thank you.

Last question, or actually just a statement. Last May, I asked that you reevaluate the need to include property and casualty insurance premiums under FATCA reporting requirements. In October, Treasury issued a priority guidance plan that included doing just that.

I appreciate your responsiveness and I hope I can count on the same level of responsiveness as we work with you on Kroll Bond Rating Agency's inclusion in the IFC's investor guidelines. Thank you.

Chairman CRAPO. Senator Cortez Masto. Good timing.

Senator CORTEZ MASTO. I did time that perfectly. Thank you.

Thank you for being here, Secretary. Interesting morning.

So let me start off, just a comment. I have heard some of the conversation back and forth and I think in response to one of my col-

leagues you made the comment that it has been a great time for financial people. That concerns me. There are many people across this country who are still struggling, and that is where we should be looking, those working families.

The other thing I want to point out, I am from Nevada. We had the worst recession we have ever seen. We are still coming out of it. And, in fact, there was a report that came out that shows that Nevada's economic forecast is doing very well. Experts are bullish on Nevada's overall economy this year, anticipating continued recovery from the recession and growth. They cite four key markers for that outlook: wages, because the average private weekly wage for Nevada workers peaked in October, representing a 2.3 percent year-over-year; construction activity, construction now is the Silver State's fastest growing sector; discouraged workers, the number of discouraged workers, those who left the labor force because they could not find a job has dropped; and Nevada's GDP has shown significant continual growth over the past 5 years. That is an incredible statistic, considering we were the hardest hit in 2007, because of the economy.

What I just cited to you was a report that came out in January 1, 2017, before you or President Trump were even in office. So the comments that I am hearing today that somehow this tax reform bill contributed to where we are today in Nevada to me is a misnomer, and it does not give respect to the Governor, and every single legislator, and every single leader, both Republican and Democrat, in the State who has worked hard for Nevada to come out of recovery.

With that said, I am hoping the actions that you take continue to benefit what we are doing in Nevada and I look forward to working there. But I think it is questionable now where that is going to lead in the year to come.

The other area that is very difficult in the State of Nevada right now, and we have been having this conversation, is affordable housing. Half of renters pay more than 30 percent of their income for rent and utilities. One in four renters pay more than half of their income for rent. Only about 5 million families live in public housing or benefit from Section 8 or other HUD- or USDA-assisted housing programs. For every low-income family who gets some housing assistance, four families receive no housing assistance at all.

So while I am relieved that the low-income housing tax credit and private activity bonds remain—they support 90 percent of all affordable housing built in our Nation—their value has gone down. Some say this could result in 200,000 fewer affordable units built in the next decade. Wages are stagnant or increasing modestly but the rent is going up.

When will the Treasury address the affordable rental housing crisis?

Mr. MNUCHIN. It is an important issue and we look forward to working with you on it.

Senator CORTEZ MASTO. OK. That seems to be the standard answer for everything.

Let me ask you this. Will the President's proposed infrastructure bill including funding to invest in our affordable housing infrastructure?

Mr. MNUCHIN. I think that when the President releases it there will be the opportunities in affordable housing, as in other things.

Senator CORTEZ MASTO. Are you working with the President how to address that—those needs?

Mr. MNUCHIN. Not specifically affordable housing but yes, the overall infrastructure, and that can be part of it.

Senator CORTEZ MASTO. When will Treasury and HUD begin publishing the monthly housing scorecard again? Apparently there has not been one issued in nearly 2 years.

Mr. MNUCHIN. I was not aware of that but I will look into that and get back to you.

Senator CORTEZ MASTO. OK. And then let me just say, I am disappointed that the Treasury Department killed the myRA program. Half of workers do not have access to a retirement account at work. The national savings rate is going down. How does the Treasury Department plan to help more people save for retirement?

Mr. MNUCHIN. Again, that is actually something I looked at very carefully, and it really—it has—the desire or the reason to get rid of it had nothing to do with our view on savings, and we do want to. It was just the cost of maintaining it, there were very, very few people who were using it, with a staggering cost, and we would rather reallocate those—that money to other ways that we can help people in saving and retirement.

Senator CORTEZ MASTO. So do you have a program that you are looking at right now?

Mr. MNUCHIN. We moved those people into the private sector and we are looking at different programs to encourage private solutions, yes.

Senator CORTEZ MASTO. OK. I would like to know, if you would, in the future, as you develop your programs and what you are looking at to make sure you are reaching out to my staff and working with us as well.

I noticed my time is all up—is basically up, so I will submit the rest of my questions for the record. Thank you.

Chairman CRAPO. Thank you. Senator Tillis.

Senator TILLIS. Thank you, Mr. Chairman, and Secretary, thank you for being here.

I want to go back. You know, we are 10 years past the financial crisis. We now have a bipartisan bill that is intended to provide regulatory relief for community banks and regional banks. Can you tell me a little bit about why you think that is important and what benefits are ultimately accrued to businesses and customers of those banks?

Mr. MNUCHIN. Sure. First of all, I believe that too many of the banking assets are held in the large banks, and one of the ways to distribute risk is to allow the smaller banks to continue to grow effectively and not have them burdened by unnecessary regulation. So I think that, one, this accomplishes more diversification in the banking, and I also think that lending is very important, in terms to growing the economy, and in many cases the local bank, the

community bank, the regional bank has those relationships. They know how to lend and we want to encourage them to lend.

Senator TILLIS. Do you think that the people wanting to startup a bank—we have got a very unhealthy, I think, situation in the banking ecosystem today, and that is the number of de novo banks that have come up. It is a very disturbing trend in North Carolina. We have lost about half of ours since the financial crisis, in a State that had a vibrant environment before, in North Carolina. Do you feel like a part of the reason why we are just not seeing that churn on banks is, at least in part, attributed to the fact that they have a regulatory hurdle that they would have to climb, that makes it difficult for them to make the business model work?

Mr. MNUCHIN. I do.

Senator TILLIS. I want to ask you, also, about—you know, with tax reform, if you were—let us say, in December, we failed to pass tax reform, and so the current tax regimen was going to be the regimen for the next 10 years. Where do you think we would ultimately be, economically, over a 10-year period?

Mr. MNUCHIN. I think we would be substantially lower than we are and probably in the low twos.

Senator TILLIS. One of the things that we have seen, it is true that the economy was turning. Some States were doing better before the President took office. I think we saw significant increase last year largely attributed to a calming regulatory overreach, and this year I think it will be a combination of continuing that regulatory reform, right-sizing regulations, and of the benefits of tax reform.

Now as businesses start looking ahead and looking at how the tax cuts affect their business, we have seen hundreds of businesses announce pay raises. We are seeing de facto minimum wages being created in the banking industry and the retail industry as a result of announcements that have been made by large organizations. We have seen pay increases. We have seen bonuses. We have seen plans for capital deployment. I do not think that there is any doubt that the vast majority of those occurred as a result of the tax plan, and they would not have occurred if we had not passed that to the President's desk. Do you agree with that?

Mr. MNUCHIN. I do.

Senator TILLIS. Now there is one piece that I think has been criticized that I would like for you to talk a little bit about, and that has to do with stock buy-backs. Some people here think that using that—some of the resources that come through tax reform to do stock buy-backs is a bad thing. I do not necessarily agree with that, in many cases.

Can you talk about what actually occurs when a company does a stock buy-back, what they are likely to do with the resources?

Mr. MNUCHIN. Sure. It is really just a reallocation of capital. So companies have a decision. They can reinvest money in their business, they can pay dividends, or they can buy back stock. And to the extent that they buy back stock or they pay dividends, that is capital that flows out to investors that can be recycled and put into other businesses. So it is a natural flow of funds from businesses that have excess capital to businesses that need to raise capital.

Senator TILLIS. So it also ultimately contributes to an increase in the GDP and economic growth.

Mr. MNUCHIN. Yes, it does.

Senator TILLIS. The last question I have for you actually relates to what you are going to do, as Secretary, for regulatory relief within your own rulemaking authorities. Can you give me some sense of what your priorities are over the next year or so, in terms of areas that you think—through the rulemaking process, not through congressional action—that we could see some of the—I know you cannot get into specifically what you want to do, but in the areas of regulations that you think that need to be looked at and may be right-sized, what can we expect?

Mr. MNUCHIN. Again, we will look across the board in the financial area.

Senator TILLIS. And, Secretary, I appreciate you being here. I actually appreciate you offering to work with us and partner with us and do—on a bipartisan basis, come up with good outcomes that, on a bipartisan basis, like the Banking Regulatory Relief Bill. I see one member who was here who worked with us to get that out of the Committee and to the Senate and hopefully to the House. We look forward to working with you on a continuing basis, on a bipartisan basis, to get regulations right and get the economy moving even more quickly than it is at this time.

Thank you.

Chairman CRAPO. Senator Jones.

Senator JONES. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for your appearance here today.

I want to go back, though. I want to defer a couple of my questions at the top of my time here to go back to Senator Heitkamp's questions concerning the pension bill and the Ranking Member's bill that is pending now, which I told him I was going to sign on. That is an important bill for folks in my State, and I think we can agree that there is a looming crisis in that.

I appreciate your answer about, you know, looking forward to working with us, but I would kind of like to start that process now. And, if you could, just give me your ideas, give me your thoughts about what do—you have looked at the bill. What about the bill was OK, anything, and are there other things that we need to be looking at to try to solve that crisis?

Mr. MNUCHIN. First of all, thank you, and I would be more than happy to meet with you. Again, this is a significant problem. I do not believe there is a simple solution. It is complicated. I would be happy to go through in aspects, but this is something that I look forward to working with Senator Brown and Chairman Crapo and figure out what are the various different solutions.

So we have a lot of resources at Treasury. I think, as you know, one of the things we look at is restructurings. We have a very prescribed formula of what we can do and what we cannot do. But as I said, I am aware of the problem that exists.

Senator JONES. And you would acknowledge that it is a significant problem for those that have those pensions.

Mr. MNUCHIN. I would say it is a significant problem. I do not know what the—it is not one with a clear, simple solution.

Senator JONES. Yes.

Mr. MNUCHIN. But we look forward to working with the Committee.

Senator JONES. All right. Thank you, Mr. Secretary.

The Small Business Jobs Act of 2010 was created to support a lot of local small businesses and to help accelerate growth. That was an important initiative for Alabama. I think we created a number of jobs; we got \$31 million. But that has now—round one has effectively run out. Would you support a reauthorization of the SBCI?

Mr. MNUCHIN. Not necessarily but I would not rule it out. Again, it is something that I would work with Congress and we need to look at more carefully.

Senator JONES. All right.

I was not here when the tax bill was brought to the floor and passed, and I am sure you may have talked about this ad nauseum, and I apologize. But you mentioned earlier that the tax bill would help create wage inflation and help wage growth. That is a big problem, again, in my State. The median income is \$47,000 a year, which is below all but a handful of States. In some counties, that median income is below \$30,000 a year.

Could you just explain how the tax bill, as it exists right now, is going to help in places like Alabama, and particularly those rural areas where the median income is \$27—, \$28,000 a year?

Mr. MNUCHIN. Sure, and that is a big concern of the President, as I commented, that workers have not had the type of raises that they should have. I would be happy to go through with you—the Council of Economic Advisors put out a piece that showed that the average would be about \$4,000. We believe that as there is significant more investment into business, that that will lead to wages going higher.

Senator JONES. All right.

The other thing that is coming up, and we are talking—I know the President will be talking about tonight, as has been mentioned here, is infrastructure, and a huge infrastructure bill. We are also talking about immigration and border security, where the Administration is asking for \$25 billion in this year to be placed for border security, which generally everyone wants better border security.

My concern, though, is that the CBO reports that talk about the debt that is being created by that tax bill, \$1 trillion over 10 years, and I know we are going to try to tap in, as Senator Shelby said, some private investment. But private investment in the infrastructure is not going to help in my rural areas. You are not going to have a toll road in Dallas County over one bridge, or certain roads there.

How are we going to pay for all of this? How are we going to pay for the \$25 billion? How are we going to pay for the infrastructure if we are having to wait to catch up? And hopefully the tax bill will do as exactly what you said and will grow the economy and we will get more money coming in. But how are we going to pay for that infrastructure now and the border security?

Mr. MNUCHIN. Well, I think, as you know, we do not agree with the CBO analysis as to—on the tax bill. We do think the revenues will go up significantly. On the infrastructure, it is going to have to be a combination of, as I said, Federal dollars, State dollars, and

private dollars. I agree with you completely. There are many, many infrastructure projects that are not going to be privately funded.

Senator JONES. All right. I see my time is up. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you. Senator Rounds.

Senator ROUNDS. Thank you, Mr. Chairman. Good morning, sir.

Mr. MNUCHIN. Good morning.

Senator ROUNDS. I am just curious. First of all, I appreciate the time that you have been in the chair already so I am going to try to be brief and not repeat a lot of the items that have been laid out today.

But, as you know, on January 18th, the FSOC and MetLife filed a joint motion to dismiss an earlier FSOC appeal which was an effort to designate MetLife as a SIFI. Additionally, on September 29, 2017, FSOC voted to rescind its designation of the American International Group, or AIG. These moves leave Prudential as the lone nonbank designated SIFI.

I understand that FSOC is given the ability to designate nonbank SIFIs under Section 113 of the Dodd–Frank. Given your comments on FSOC today, should the Banking Committee consider changes to Section 113 and to the structure of the FSOC more broadly?

You mentioned greater transparency is necessary to FSOC. Would you recommend other changes as well, specifically with regard to this section?

Mr. MNUCHIN. Again, I do not have specific recommendation to that section because I think there are things that we can do at the committee level, and as you have mentioned, in the case of AIG they were de-designated because they significantly reduced their risk, and that was the decision of the Committee. In the case of MetLife there was a legal view and a decision to drop the appeal. So I do not think we need legislative changes at this point.

Senator ROUNDS. OK. I know that Senator Scott had done a series with regard to the cost benefit analyses that were being used, and I am just curious. I would kind of like to follow up just a little bit with his questioning. Do you intend to push for an interpretive guidance from FSOC to reflect that agency action is appropriate only if a cost benefit analysis can show that it does more good than harm?

Mr. MNUCHIN. We are going to go through reviewing those guidelines, and I want to be careful to make conclusions before I have had a chance to review that with the Committee Members. But we are in favor of more transparency in the analysis of cost benefit.

Senator ROUNDS. So you would be interested in a further discussion with the members of—when you say “the committee”—

Mr. MNUCHIN. Excuse me. Of FSOC, not of this Committee.

Senator ROUNDS. OK. I was going to say, we would be happy to have that discussion with you as well.

In the past, also, on another issue, in the past there has been a great deal of concern surrounding the role of the Financial Stability Board, the FSB, and the FSOC designation process. As you know, the FSB is an international body that makes recommendations about the global financial system. While the United States is represented in the FSB, the body has no authority over U.S. finan-

cial regulation. However, past actions, such as the designation of Prudential and MetLife raise questions over the influence of the FSB and FSOC's SIFI designations.

Can you commit, or would you discuss with us your philosophy with regard to the role that the FSB will play, or perhaps no role, in future FSOC designations? What are your thoughts and where do you see the committee going?

Mr. MNUCHIN. I do not see FSB having any role in future designations at FSOC.

Senator ROUNDS. Would that be a change from previous activity or previous considerations, in your opinion?

Mr. MNUCHIN. I cannot comment on what the committee did before I was on it, although I share some of the concerns that have been raised.

Senator ROUNDS. So more appropriate to perhaps take under advisement, but most certainly independently from anything proposed by our international group.

Mr. MNUCHIN. Absolutely.

Senator ROUNDS. We have all recently watched the swings in bitcoin's market value. Bitcoin, along with numerous other cryptocurrencies has seen their values jump substantially since the beginning of 2017. Do you see cryptocurrencies as a threat to financial stability?

Mr. MNUCHIN. I am glad you brought up one of my favorite subjects. We have got something new to talk about now. So I do not see it as a treat to financial stability but I see them as very important issues. We have set up a subcommittee of FSOC to look at this.

My primary concern about cryptocurrencies is twofold. One, I want to make sure that these are not used by bad guys, that they do not turn into old Swiss numbered bank accounts. In the United States, if you are dealing with these cryptocurrencies in our wallets and other things, you have the same BSA, you have the same money-laundering requirements as banks. We want to make sure that around the world that exists. And I also want to make sure that consumers understand the issues around cryptocurrencies.

Senator ROUNDS. Just one last—just a very quick follow-up on that particular issue. Do you think you have the tools available to you now, both in terms of legislative authority and the manpower, to actually follow through and enforce with regards to the concerns that you have expressed?

Mr. MNUCHIN. I do think we have them now, but having said that this is an evolving world and we will not be bashful in coming back and asking for more resources.

Senator ROUNDS. Thank you. Thank you, Mr. Chairman.

Chairman CRAPO. Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman. Mr. Secretary, thanks for being here.

Mr. Secretary, the recently enacted NDAA, the National Defense bill, included an amendment I authored to require a comprehensive strategy from all the agencies—that includes Treasury—within 90 days of enactment to address the threat posed by North Korea. That was enacted in late November. This is due by March 15th.

Have you had any discussions about Treasury's reporting requirements in regards to this North Korean strategy?

Mr. MNUCHIN. I probably spend more time on North Korea than almost any other subject. So the report will be part of this, but we spend a lot of time at Treasury discussing these issues.

Senator DONNELLY. I appreciate the fact that you discuss those issues. Will you be meeting the required reporting date of March 15th with Treasury strategy regarding North Korea?

Mr. MNUCHIN. I have no reason to think that we will not meet that deadline, so I anticipate we will.

Senator DONNELLY. OK. Thank you.

This has been mentioned before. I will mention it again. It is absolutely critical to my State as well, and it is in regards to the pension situation we find ourselves in. We are working to protect the pensions of coal miners, Teamsters, participants of more than 140 multi-employer pension plans, and we must shore up this system before it grows even worse. I know you have met some of these retirees in the past, and we could really use your support to help get the legislation across the finish line.

I am also a sponsor of the Butch Lewis Act. Are you willing to support the Butch Lewis legislation in order to ensure the solvency of these plans?

Mr. MNUCHIN. Again, I am not willing to specifically support that legislation but I am willing to sit down with you and others, on a bipartisan basis, and figure out a solution.

Senator DONNELLY. OK. Do you have any specifics of legislation you will support at this time?

Mr. MNUCHIN. I would rather not go through it at this moment in time. As I said, it is a complicated issue. It is one of the more complicated issues I have come across in the last year.

Senator DONNELLY. When you meet with me, will you bring specifics at that time?

Mr. MNUCHIN. Yes. I would be more than happy to do that.

Senator DONNELLY. OK.

Let me tell you about a meeting I had in Oakland City, Indiana, and it was with about 300 miners and their spouses, the retired miners, and they had just gotten their health benefits. And they said, "Harry Truman made this promise to us," and to be able to get this, for one of the miners there, it mean he could still get the medicine he needed so that his wife, who was in a terminal medical condition, could get that medicine and live out her remaining days in peace and without pain. That is how important that was. And they said, "This pension piece is equally important to us, so we do not find ourselves living hand to mouth at the end of the day."

And you have been kind enough to agree to meet with me, and I know you have met with others. Will you meet with our miners and our truck drivers to go through this, to answer their questions? They are our friends and neighbors. They are citizens of my State. They want to know what the future holds.

Mr. MNUCHIN. We had a meeting last year and I would be happy to conduct a meeting this year, again, with workers across different industries who are affected by this.

Senator DONNELLY. OK.

Senator Sasse and I lead the Banking Subcommittee on National Security and International Trade and Finance, and we held a hearing last spring on North Korea, and asked former Administration officials how we can more effectively deploy sanctions. Unsurprisingly, as I am sure it is unsurprising to you too, the conversation focused largely on China and the possibility of secondary sanctions on Chinese institutions.

I know Treasury has imposed sanctions on a number of Chinese entities that have served as sources of trade and revenue for North Korea. Have you see that those secondary sanctions have been effective as a deterrent in regards to North Korea?

Mr. MNUCHIN. Yes, very much so.

Senator DONNELLY. When you look at this, does China, do you think, have a basic understanding of where and how North Korea is using China's banks and economy?

Mr. MNUCHIN. I do.

Senator DONNELLY. And does that activity occur at the largest Chinese banks, including State-owned banks, or does North Korea intentionally funnel primarily to the smaller Chinese banks that are less susceptible to U.S. pressure?

Mr. MNUCHIN. I do not want to go through the specifics of this in this setting but I would be happy to come and talk to you about it. But I will say we are having very, very specific, ongoing dialogue with the Chinese banks. I just sent my under secretary over there. She met with a large group of people and regulators, and we are having very good dialogue with the banks over there. And we will continue to have sanctions where appropriate.

Senator DONNELLY. I would—I appreciate that and I would like that meeting to be sooner rather than later, in light of the significantly dangerous situation we find ourselves in with North Korea.

Mr. MNUCHIN. We will follow up with you to get that on the books.

Senator DONNELLY. Thank you, Mr. Secretary. Mr. Chairman, thank you very much.

Chairman CRAPO. Thank you. Senator Reed.

Senator REED. Well, thank you, Mr. Chairman. Thank you, Mr. Secretary, for joining us here today.

In the 2017 FSOC annual report they called for underscoring the necessity of sustained senior-level attention on cybersecurity risks and their potential systemic implications. Could you elaborate, give us more understanding of what you are doing, because cyber seems to be in the headline of every paper, every day? Please.

Mr. MNUCHIN. Well, thank you. It is a very important subject. I am spending a lot of time on this. I am happy to report, as I said earlier. I do not see anything at this moment that is risk to the financial sector, but we need to continue to invest lots of money, and this has to be a combination of our intelligence community, our experts at Treasury, our experts in the regulators, as well as private industry. We need to be working very, very closely together, because this is something that is evolving every day.

Senator REED. I just—apropos of your comment “evolving every day,” I saw, I think this week, the story about the ATMs that can be remotely controlled by bad people. In fact, there is one, I think, if you have the right sort of magic words you can go up and de-

mand money and it just flows out. If that is not checked, that would, you know, an upheaval on our banking system.

Mr. MNUCHIN. Yeah. That has actually been going on for years. So at first people put skimmers on and now they are using little doctored things. But that—the ATMs, I think, have been upgraded to where we are OK, but there plenty of other cyberattacks that we need to stay ahead of.

Senator REED. Let me ask you a related question, is that given the fact that this is an onslaught by both organized, State-sponsored entities, criminal entities, individual hackers that have talents, et cetera, have you had adequate personnel and experts in the Treasury Department to carry on this expanding work?

Mr. MNUCHIN. Again, I would say right now we do, but I am not going to bashful to come back and ask for more resources as this evolves, if we need it.

Senator REED. We have talked about digital currencies. My colleague, Senator Rounds, raised the issue, and you seem to enjoy questions about digital currency, so I will give you another one. That is that FSOC is, as you point out, involved not just in terms of the stability of the financial system with these digital currencies but also with nefarious activities by money laundering, avoiding sanctions. That raises the question of how closely are you aligned with our intelligence community in terms of the intelligence problems here, i.e., circumventing sanctions, criminals using it to support terrorist activities—you can go down a long laundry list. What is your relationship with the intelligence communities?

Mr. MNUCHIN. Very closely. I meet with Director Pompeo and others on a regular basis and at all levels of the Treasury we have daily interaction and people going back and forth. So it is very good working relationships.

Senator REED. Have you noticed a significant increase in these types of nefarious actors using cryptocurrencies, or is it just that the problem has stabilized, or is it growing?

Mr. MNUCHIN. Again, I want to be a little bit careful of what I say in this format, but what I would say is there is not something that is of significant concern to us today, but it is something we need to actively monitor. And it is a bigger concern of mine in other countries. So that is our big push, whether it be at the G7 or the G20, to make sure that other countries are regulating these activities the way we are.

Senator REED. Just stepping back for a moment, as the chairperson of the FSOC you have multiple agencies reporting to you. We have raised multiple topics here today—cryptocurrencies, cybersecurity, particularly. Do all your component agencies have the expertise, the relevant expertise and the personnel to fully engage with you? You might be very well intentioned but if—you know, if you cannot count on an agency that has different responsibility, your intentions will not be, at the end of the day, up to the job.

Mr. MNUCHIN. Again, I would say right now I think we do, but one of the things we want to make sure is we have the proper coordination so that when we have all these resources we can use them appropriately together. And again, as I have said, I will not be bashful if the agencies need to come back and more resources.

Senator REED. Just a quick question. Will you—are you contemplating doing an assessment of the threat and the resources and presenting it, I assume first to the Administration, but to us, so that we have an idea? Because in the past, you know, we have had agencies who have come up and—at the directly, particularly, of ONB, said we do not need anything, when, in fact, they were really in arrears in terms of personnel and resources. Can you make that commitment?

Mr. MNUCHIN. That is something in the early states that we are working on and I think it makes sense.

Senator REED. Thank you, Mr. Secretary.

Chairman CRAPO. Thank you. Senator Van Hollen.

Senator VAN HOLLEN. Thank you. Thank you, Mr. Chairman. Welcome, Mr. Secretary. Sorry, I was in another committee hearing, and I do want to start by thank you and the Department for your input on the legislation, the BRINK Act. I think Senator Toomey mentioned it. The Chairman has been working very hard to get a vote scheduled on that, and I appreciate working with you and your team on the issues related to North Korea.

A lot of the issues I was going to cover have been addressed, but this is the first time, I believe, you have been before the Congress since the passage of the tax bill, and by all accounts the President tends to talk a little bit about that this evening. And you and I will find plenty to disagree with about the tax bill, in general.

But in the interest of truth in advertising I do think it is worth pointing out a couple of things that were said that the plan would do, which it did not. And one, of course, is that it ended up providing big tax breaks to very wealthy Americans. And you recall because you have been faced with this question before.

Back in November of '16 you said, and I quote, "Any reductions we have in upper income taxes will be offset by less deductions so there will be no absolute tax cut for the upper class." That is not true with respect to the final bill, is it? I mean, there are net tax reductions for the upper class.

Mr. MNUCHIN. There are overall. There are people who did not get them but there are overall. Yes, that is the case.

Senator VAN HOLLEN. And I do think it is worth pointing out, Mr. Chairman, that the Joint Committee on Taxation, which, of course, is the official sort of scorekeeper on tax matters, concluded that households that make more than \$1 million per year will get an average tax cut of \$64,000 in 2019 alone. And, Mr. Secretary, do you have any reason to doubt that analysis?

Mr. MNUCHIN. I do not have the numbers in front of me, but I think our numbers—I do not have any reason to doubt that.

Senator VAN HOLLEN. Thank you.

And let me go back to another statement. This was made by candidate Trump in May, 2016. He said with respect to his tax plan, and I quote, "Everybody is getting a tax cut, especially the middle class." Speaker Ryan, and later Republican leader McConnell made statements about how everybody in the middle class, every single person, was going to get a tax cut, and that turned out not to be the case either, right?

Mr. MNUCHIN. I think we worked very hard, that almost everybody got a tax break. But as you know, the tax system was very

complicated, and as we simplified it certain people have different situations, but again, over 90 percent of the people have gotten tax breaks.

Senator VAN HOLLEN. Well, Mr. Secretary, with all respect, we just had a State analysis, and this is a bipartisan result in the State of Maryland. And it was performed by Maryland Bureau of Revenue Estimates, and they concluded that 376,000 Maryland families are going to get a tax increase as a result of the bill that passed the Congress, and that those tax increases will average \$2,080 per family. I do not know what you mean by "almost nobody," but 376,000 Marylanders, that is a lot of people just in the State of Maryland.

And if you look at the impact of those tax cuts, they also concluded that 123,000 Maryland families who make between \$25,000 and \$50,000 a year are going to get tax hikes, and for them it will be an average tax hike of \$759. That is not consistent with earlier claims that everybody was going to get a tax reduction, is it?

Mr. MNUCHIN. I will assume your numbers are correct.

Senator VAN HOLLEN. Well, that is a lot of people, just in Maryland. And so Maryland, like other legislators and others around the country, actually scrambling to try to protect the people in our States from tax increases that they are going to face as a result of this tax bill. I am hoping that the Department of Treasury will actually work with this—work with the States on this. If your intention was, as the President indicated early on, that nobody in the middle class should see a tax increase, I hope you will work with us, especially as it relates to issues of eliminating the deduction for State and local taxes, the SALT deduction, which results in double taxation. I hope you will be working with us to actually accomplish what the President said he wanted to accomplish on the campaign trail, and I look forward to that discussion.

Mr. MNUCHIN. Thank you.

Chairman CRAPO. Thank you very much, Senator Van Hollen, and Senator Kennedy, who had to go preside until noon, which is about 5 minutes ago, is on his way back, and I so I told him that I would keep the hearing open. And while we are waiting just a few minutes for Senator Kennedy to return, I thought I would take another opportunity to ask you a few questions, Mr. Secretary. And I want to go into this tax question. You have been asked a number of questions today about taxes.

I sit on the Finance Committee and was a part of the team that helped to write this tax bill. And, Senator Van Hollen, I do kind of wonder about the numbers you are getting from your State. What was the one about zero to \$25,000?

Senator VAN HOLLEN. No—123,000 Maryland families who make between \$25,000 and \$50,000 a year will get tax hikes. Average tax hike for that group, \$759.

Chairman CRAPO. Well, I do not know exactly what that is, but let tell you some of the stuff that we ran into, in terms of these kinds of scores—and we will just have to check it out. But when we eliminated the individual mandate, which was a tax on people who did not want to buy insurance that the law forced them to buy, that was scored by some of the tax scorers, including the Joint Tax Committee, as a tax increase.

Now how can telling people that they can voluntarily avoid a tax turn it into a tax increase? The way that happened was, Joint Tax said if they do not take advantage of the Obamacare subsidy of several thousand dollars to buy insurance, that that they do not want to buy, that the value of that insurance is a—that they are voluntarily choosing not to get the subsidy for, the value of that subsidy is a tax increase.

Some of us found that that was an outrageous assumption to be making in calculating these kinds of things, and so we asked Joint Tax to run the numbers without calling it a tax increase when someone voluntarily chooses not to take a Government subsidy. When they ran those numbers it turns out that—and I would like you to verify this, if you can, Mr. Secretary—the analysis of the tax code that we implemented showed that every single income cohort in the tax code, starting from 0 to 10 and going on up to the highest income categories, every single income tax cohort got a tax cut.

Can you verify that, Mr. Secretary?

Mr. MNUCHIN. I can.

Chairman CRAPO. And can you also verify that the largest percentages of tax cuts were in the lower- and middle-income categories?

Mr. MNUCHIN. Yes, I believe that is the case.

Chairman CRAPO. Now, I will be the first to say that, as the Secretary has indicated, you can go into each cohort and find individuals who, because of their particular tax circumstances, might have seen their taxes go up, particularly if they live in a State with high State and local taxes. That is something that happened.

But I think it needs to be said, that every single, solitary tax cohort got a tax cut, and the highest percentages of tax cuts were in the lower- and middle-income categories. And I just—can you verify that again, Mr. Secretary?

Mr. MNUCHIN. Yes.

Chairman CRAPO. I think those things are important. I have seen a lot of analyses of this code and many other different tax provisions, and I just think we have to be very careful when we look at the study that some group has done, and be sure we understand what the assumptions that they are making are when they do their calculus.

I have a—I want to shift real quickly, and I expect Senator Kennedy to come through the door at any moment—but, Mr. Secretary, you have spoken a lot today about a wide range of issues. Are there any areas, either in the FSOC report or the Treasury reports that you think we need to continue monitoring or that we should pay greater attention to here? This is just an open question to you, to tell us what you would like us to be focusing on.

Mr. MNUCHIN. No. I think we have had the opportunity to talk about a lot of interesting issues across the board. Obviously, cyber, we have talked about a lot. We touched on cryptocurrencies, which is something that we are spending time looking at. We have talked about the designation process. We look forward to working with you and the Committee to raise the threshold. That does not mean that those entities will not be regulated. They will be regulated. And as the Senator pointed out, it does not mean that they cannot be designated.

So we look forward to working with you on that, and housing reform, I am glad we have had a lot of conversations today on housing reform. I hope we do figure out a solution to this so that we do not leave these entities around for another 10 years. And as I have said, I am open-minded to working with you and the Committee on lots of solutions, with the understanding that we maintain a 30-year mortgage, and with the understanding if we put the Government taxpayer at risk on a guarantee, which we do not have to do but we will look at different alternatives. But if we do do that, that the taxpayer is compensated and that there will not be any explicit—implicit guarantees that they are not compensated for.

Chairman CRAPO. Well, thank you. And I do, before it turn it to—in fact, I am going to let Senator Van Hollen have a comeback, if you would like to.

Senator VAN HOLLEN. Very briefly, I would just first of all say on the—the analysis I gave you was based on our State Board of Revenue estimates—

Chairman CRAPO. Mm-hmm.

Senator VAN HOLLEN. —and there is no mention there at all of the Affordable Care Act component.

But I would love to share information, because I do think a lot more people are going to see tax increases than suggested.

The last point I would make, Mr. Chairman, as you know, that if someone had a \$200, you know, tax liability and now it is \$100, that is a 50 percent cut. So, yes, those folks who had—who were in the lower brackets who got tax cuts, they were a higher percentage, but that does not take away the fact that the average tax cut for a millionaire was \$67,000, according to Joint Tax. And I think we could have avoided that in this process. All right.

Chairman CRAPO. Understood.

Senator VAN HOLLEN. I appreciate the opportunity.

Chairman CRAPO. It is always going to be the case that when you have tax cuts across the board, those who pay more taxes will get larger tax cuts, in dollars.

Senator VAN HOLLEN. Well, especially when you reduce the top rate, which was not required to be done in order to close loopholes.

Chairman CRAPO. Understood.

Senator VAN HOLLEN. But we should have another conversation. I appreciate the opportunity, Mr. Chairman.

Chairman CRAPO. Senator Kennedy, before I come back to you, or go to you, I want to ask just one more question. This relates, again, to basically the economic growth and the deficit issue. Just a couple of quick things. The CBO score that was issued this year, for budget purposes and also was used in discussion of the tax bill, projected a 1.9 percent rate of the economy. Correct?

Mr. MNUCHIN. Correct.

Chairman CRAPO. And am I also correct that it projected that the economy would grow only at 1.9 percent for 10 straight years?

Mr. MNUCHIN. That is correct.

Chairman CRAPO. In other words, zero growth in the rate of growth of the economy, under current law, and that is what the CBO projected. It is that projection, that absolutely flat-line projection, that if we do nothing we will see nothing in terms of growth,

that has been used to analyze and make the claims about this tax bill.

The argument is that this is going to generate \$1 trillion worth of deficit. How much would the economy need to grow, to average over the next decade, before there is not a—before it is revenue neutral? Do you know that number?

Mr. MNUCHIN. It is about 30 to 35 basis points.

Chairman CRAPO. Which is about 2.3 percent?

Mr. MNUCHIN. Yes.

Chairman CRAPO. So if the economy can average 2.3 percent instead of 1.9 percent over the next decade, there will be no deficit from this tax bill. Correct?

Mr. MNUCHIN. That is correct.

Chairman CRAPO. And we are already at 3, and the projects that the Council of Economic Advisors has put out is we hope to be able to maintain that 3 for a decade.

Mr. MNUCHIN. That is correct.

Chairman CRAPO. I understand those are projections, and I understand there are lots of arguments about those projections, but at least this far in we are exceeding what is needing to be achieved in order to avoid any deficit.

Mr. MNUCHIN. That is correct, Mr. Chairman.

Chairman CRAPO. All right. Thank you. Senator Kennedy.

Senator KENNEDY. Thank you, Mr. Chairman. Thank you, Mr. Secretary.

Mr. MNUCHIN. Nice to see you.

Senator KENNEDY. I want to start by associating myself with the remarks of Senator Shelby, and thank you for your hard work on our tax legislation.

Mr. MNUCHIN. Thank you.

Senator KENNEDY. Can we agree that the revenue generated, the one-time revenue, generated by the repatriation of monies from overseas profits back to the United States is nonrecurring revenue?

Mr. MNUCHIN. Yes.

Senator KENNEDY. OK. Then why do not we match that up with a nonrecurring expense like infrastructure?

Mr. MNUCHIN. Well, it—

Senator KENNEDY. Does that make sense in terms of budgeting—

Mr. MNUCHIN. Again—

Senator KENNEDY. —101?

Mr. MNUCHIN. —I would just say, at the end of the day, you know, cash and revenues are fungible. So from our standpoint, we were just looking at from the tax standpoint and we would leave it to Congress on the appropriations side.

Senator KENNEDY. So you would not be opposed if we decided to dedicate all of the tax revenues, one-time tax revenues, that are generated by monies repatriated, one time, to the United States from overseas profits, and we match those up, as any first-year accounting student would recommend that you do, with one-time, nonrecurring expenses like infrastructure. You would not have any objection with that?

Mr. MNUCHIN. I would have no objection with that whatsoever.

Senator KENNEDY. Can we agree that would be a swell idea?

Mr. MNUCHIN. That sounds like a terrific idea.

Senator KENNEDY. Good. You are going to ask us to raise the debt limit.

Mr. MNUCHIN. I already have, yes.

Senator KENNEDY. OK. I know you are not clairvoyant but over the next 3 years, and perhaps 7 years, how many more times are you going to ask us to raise the debt limit?

Mr. MNUCHIN. I assume a lot.

Senator KENNEDY. Should not we do something about that?

Mr. MNUCHIN. Again, I think the President is very much concerned about the rate increase of the debt, and particularly that it grew over the last 8 years. His first priority was to create economic growth. That is the single most important thing that will create revenues. And over time we need to figure out where we can have Government savings to deal with the deficit.

Senator KENNEDY. Well, we are at \$20 trillion and climbing, and at some point we are going to have to change the name of the Department of the Treasury to the Department of the Debt, because there is not going to be any treasure left.

Now, in the past year we have added, what, \$536 billion to that?

Mr. MNUCHIN. That is about right.

Senator KENNEDY. OK. I mean, it would seem to me that we need to have an adult discussion at some point about how we are going to get control of that.

Mr. MNUCHIN. I think the long-term debt and the long-term budget deficits are something that Congress needs to be conscious of.

Senator KENNEDY. OK. I want to talk to you about the sanctions. Can we agree that at least for the past 5 years that President Putin has acted like a thug?

Mr. MNUCHIN. I am not going to use that terminology, but there are clearly issues that we need to address, and that we have done with sanctions, and as I have said earlier, now that we delivered the report last night there will be additional sanctions going forward.

Senator KENNEDY. Well, let us go through the list. Ukraine, Crimea, Syria, he meddled in our election, he is helping North Korea cheat. I mean, it seems to me that in terms of sanctions, we ought to hit him so hard he is coughing up bones. I mean, he is not getting better. He is getting worse. I do not understand why we are not—why the Administration is not imposing the sanctions that the U.S. Congress overwhelmingly supported.

Mr. MNUCHIN. Again, I apologize because I said this earlier and you were not here, but we did an enormous amount of work in the intel community and Treasury putting together this report. I encourage you to look at the classified version, which is hundreds of pages. We delivered that last night, and we intend to now use that report and that intelligence to go forward with additional sanctions.

Senator KENNEDY. When?

Mr. MNUCHIN. We will be working on—we are already working on that. Now that we have finished the report, that is the next part of—

Senator KENNEDY. In the next—I do not meant to interrupt you. I am sorry. Were you through?

Mr. MNUCHIN. Yeah. No, I mean, again, I want to be careful, but in the near future you will see additional sanctions.

Senator KENNEDY. Is that near future within the next month?

Mr. MNUCHIN. Again, I want to be careful because the sanctions process, there is a process of declassifying. I do not want to commit it is going to be within the next month, but I can assure you as quickly as we can do this, this will be. So in the next several months you will see it. It may be a month. I just want to be careful in making that commitment. It is a thorough process of the work that needs to be done.

Senator KENNEDY. He is not getting any better, Mr. Secretary. Maybe you are seeing something and there is something in classified information that we are not seeing, and if there is, I would sure like to see it, because what you allow is what will continue.

Mr. MNUCHIN. All right. I understand. Thank you.

Senator KENNEDY. And I really think we are sending the wrong message at this critical juncture. I mean, his activities alone, in helping North Korea cheat, ought to require additional sanctions.

Mr. MNUCHIN. I understand, and we look forward to working with you on this, and there is a lot of activity here.

Senator KENNEDY. Thank you, Mr. Chairman.

Chairman CRAPO. Thank you, and I have just a couple of quick announcements. Some Senators may want to ask some additional records—questions for the record, and those will be due by February 16th, Tuesday. And, Mr. Secretary, we ask that you respond to those questions as promptly as you can.

And that concludes this hearing. Thank you for your testimony again. This hearing is adjourned.

[Whereupon, at 12:21 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN MIKE CRAPO

Today, Treasury Secretary Steven Mnuchin will testify on the Financial Stability Oversight Council's 2017 annual report and the operations and actions of FSOC this Congress.

In December of last year, FSOC issued its 2017 annual report, in which it provided numerous recommendations, insights into the Council's key activities, and identified potential emerging threats to financial stability.

One of the recommendations urged Congress to reform the housing finance system and boost the role of private capital in mortgage finance.

I have repeatedly stated that the status quo is not a viable option and reforming the housing finance system is one of my key priorities.

Testifying before the Banking Committee last year, Secretary Mnuchin reaffirmed his commitment to work with us to find a solution, and stressed the importance of finding a balance between ensuring strong taxpayer protection and ample access to credit.

Four years ago, a bipartisan group of Senators passed a housing finance reform bill in this Committee.

We have an opportunity now to build on that effort and create a broader coalition of Republicans and Democrats to pass a bill into law.

This remains one of my top priorities, and I look forward to continuing to work with the other Members of this Committee, Secretary Mnuchin, and other stakeholders throughout this process.

Another focus of the report was cybersecurity, particularly in the financial services space.

FSOC identified cybersecurity as an area requiring greater attention due to the increasing sophistication of cybercriminals and the growing scope and scale of malicious attacks, including data breaches.

The list of significant cyberattacks and cyberbreaches both in the public and private sectors keeps growing at an alarming rate and seems to have impacted the majority of all Americans.

The Council made recommendations to specifically address cybersecurity risks, including greater collaboration between the public and private sectors.

It is critical that personal data is protected by both the Government and industry, and that when there is an attack or breach, the impact on victims is minimized.

The report also highlighted key actions taken by the Council since the last report.

This included FSOC rescinding the designation of two nonbank financial companies.

Many of us on the Committee have long been critical of the lack of transparency and analytic rigor of FSOC's process for designating nonbank SIFIs.

In November 2017, Treasury issued a report outlining recommendations for enhancing both the nonbank and financial market utility designation process, which included tailoring regulations to minimize burdens and ensuring the designation analyses are rigorous, clear, and transparent.

In the past, the nonbank SIFI designation process has lacked clarity and consistency, with the threat of serious regulatory consequences for firms that received designations.

This inevitably translates into higher costs for consumers and the overall economy.

When making determinations, the FSOC's process must be transparent, objective, and measurable, with clearly outlined criteria when such designations are appropriate.

It must also provide clarity on how companies can shed such designations.

I thank the Secretary for his work in these areas and for testifying before the Committee today, and look forward to his comments and insights on these important issues.

PREPARED STATEMENT OF STEVEN T. MNUCHIN

SECRETARY, DEPARTMENT OF THE TREASURY

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Chairman Crapo, Ranking Member Brown, and Members of the Committee, thank you for inviting me today. One of my top priorities as Treasury Secretary is sustained economic growth for the American people, and so I am happy to report that the growth rate of the economy over the past year was higher than the average over the prior 20 years and included two straight quarters of 3 percent or higher GDP

growth. The President promised robust growth, and he is delivering on that promise.

I am here today to speak about the Financial Stability Oversight Council's 2017 annual report. This is an important vehicle for providing Congress and the public with the Council's assessments and recommendations relating to regulatory developments and potential risks to the financial system.

This report emphasizes the importance of economic growth to maintaining a resilient financial system. Since the financial crisis, we have had time to assess the effectiveness of regulatory reforms and consider their unintended consequences. The report recommends that Council member agencies address regulatory overlap and duplication, modernize outdated regulations, and tailor regulations based on the size and complexity of financial institutions.

The report also discusses a number of risks that the Council is monitoring. One that I would like to emphasize in particular is cybersecurity. The financial system's heavy and increasing reliance on technology increases the risk that significant cybersecurity incidents could disrupt the financial sector and potentially impact U.S. financial stability. Substantial gains have been made, but I want to emphasize the need for sustained attention to these risks. The report makes a number of recommendations, including creation of a private sector council of senior executives in the financial sector to collaborate with regulators in order to mitigate cybersecurity threats.

Turning to our growth policies, the Tax Cuts and Jobs Act passed last year was our top priority, and this overhaul of the tax code is already having a positive impact. Because of tax reform, over three million Americans have received special bonuses or other benefits, and over 250 companies have announced investments in their workforces. Companies are announcing higher wages and increased benefits, as well as greater spending on employee training, infrastructure, and research and development. These investments will lead to long-term prosperity, and as companies continue to bring back cash from overseas, our economy will continue to grow.

Let me now turn to some specific priorities for this new year.

I want to commend both houses of Congress for their work on financial regulatory reform. The bipartisan Economic Growth, Regulatory Relief, and Consumer Protection Act is a balanced and thoughtful approach that better aligns our financial system to support economic growth in our communities. Further, the legislation reflects many of Treasury's recommendations from our Executive Order reports released last year. I encourage the Senate and the House to work together to move legislation as quickly as possible.

In December I wrote to Congress providing notification of my determination that a "debt issuance suspension period" (DISP) would last until January 31st. As Congress has not acted to suspend or increase the debt ceiling, I have determined that the DISP will be extended into February and will be notifying Congress as such. I respectfully urge Congress to act as soon as possible to protect the full faith and credit of the United States by increasing the statutory debt limit.

The House and Senate have been working toward modernization of the Committee on Foreign Investment in the United States (CFIUS). I support the Foreign Investment Risk Review Modernization Act (FIRRMA) and applaud Senators Cornyn, Feinstein, and Burr and Representatives Pittenger and Heck for their leadership on this issue. A modernized CFIUS will enable us to protect our national security from current, emerging, and future threats, while preserving our longstanding open investment policy that is key to fostering innovation and economic growth. I look forward to working with Congress and the relevant committees to advance FIRRMA.

One of Treasury's core missions is to safeguard the Nation by using the powerful economic tools in our arsenal. We will continue to take frequent and ongoing actions to combat threats from malicious actors. These include terrorist groups, proliferators of weapons of mass destruction, human rights abusers, cybercriminals, and rogue regimes like North Korea, Iran, and Venezuela. We continue to review intelligence to identify targets with maximum impact, deny them access to the U.S. and international financial systems, disrupt their revenue streams, and ultimately pressure them to change their behavior.

On housing finance, the current situation of indefinite conservatorship for Fannie Mae and Freddie Mac is neither a sustainable nor a lasting solution. The Administration looks forward to working with Congress to reform America's housing finance system in a manner that helps consumers obtain the housing best suited to their own personal and financial situations while, at the same time, protecting taxpayers.

I am proud of what we have accomplished so far, and there is more to do. Our country's potential is enormous, which is why Americans expect their Government to enact policies that allow them to succeed and prosper. Treasury's collaboration

with Congress is vital to that mission, and we are working every day to make it a reality.

Thank you and I look forward to answering your questions.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR BROWN
FROM STEVEN T. MNUCHIN**

Q.1. A Treasury report on nonbank financial company designations issued last year¹ recommended that Financial Stability Oversight Council (FSOC) pivot to an activities-based approach, and away from nonbank financial company designations, as the method by which FSOC attempts to mitigate systemic risk.

What kinds of activities by nonbank financial companies would be considered as having effects on financial stability?

A.1. The Council monitors all aspects of financial markets and institutions to fulfill its important statutory role of identifying and responding to risks to financial stability. Council members are considering the recommendations made in Treasury's November 17, 2017, report on FSOC designations, and I look forward to working with them to determine how best to implement the recommendations.

Q.2. How do those activities differ from the "Emerging Threats and Vulnerabilities" identified in Section 6 of the FSOC Annual Report?²

A.2. The Council's annual reports describe potential emerging threats to U.S. financial stability, as well as vulnerabilities in the financial system. The Council's annual reports also make recommendations to enhance the stability of U.S. financial markets. I look forward to working with the Council to determine how best to implement Treasury's recommendations regarding an activities-based approach in this context.

Q.3. Does the FSOC intend to update its systemically important financial institution (SIFI) final rule and interpretive guidance to explain how it will conduct activities-based reviews?³

A.3. I expect that the Council will update its rule and interpretive guidance regarding nonbank financial company designations in light of Treasury's recommendations in this area and taking into account the perspectives of all Council members.

Q.4. Once identified, will those activities be made public?

A.4. Consistent with its commitment to making its deliberations and actions transparent to the public and stakeholders, the Council regularly makes public statements regarding potential risks to financial stability that it identifies.

Q.5. How sure are you that the data necessary for monitoring the activities described in Question 1 is available in a timely manner, given the current prevalence of data gaps, a number of which are pointed out in the 2017 FSOC Annual Report?

A.5. The Council and its members, including State and Federal regulators, are able to gather extensive data regarding potential risks to U.S. financial stability. To the extent that gaps exist, we

¹ <https://www.treasury.gov/press-center/press-releases/Documents/PM-FSOC-Designations-Memo-11-17.pdf>

² https://www.treasury.gov/initiatives/fsoc/studies-reports/Documents/FSOC_2017_Annual_Report.pdf

³ <https://www.treasury.gov/initiatives/fsoc/Documents/Nonbank%20Designations%20-%20Final%20Rule%20and%20Guidance.pdf>

work to identify and address those concerns, as described in the Council's annual reports.

Q.6. Are you confident that the FSOC will have the ability to fill data gaps and gather the necessary information FSOC needs to monitor and prevent the emergence of financial crisis-level risky activities while at the same time you are shrinking the FSOC and Office of Financial Research (OFR) staff?

A.6. The Council and its members, including State and Federal regulators, are able to gather extensive data regarding potential risks to U.S. financial stability. To the extent that gaps exist, we work to identify and address those concerns, as described in the Council's annual reports. The OFR will continue to play an important role in improving the coverage, quality, and accessibility of financial data, as well as data sharing between agencies.

Q.7. The Treasury Report on nonbank financial company designations issued last year⁴ provided that the FSOC shouldn't just consider whether a failure of a nonbank would be catastrophic when making a designation decision, but also should consider the "likelihood" of a firm's failure. Bear Stearns was trading for \$65 a share a week before it failed, when it was bought for \$2 a share—with \$30 billion in backing from the Federal Reserve. Regulators have a bad track record of predicting failures.

Please discuss how FSOC would assess the likelihood of a firm failing.

A.7. Council members are considering the recommendations made in Treasury's November 17, 2017, report on FSOC designations, and I look forward to working with them to determine how best to implement the recommendations.

Q.8. Isn't the point of a designation to avoid a catastrophic nonbank financial company failure, even if it's a remote event?

A.8. The Council has a variety of statutory authorities for identifying and responding to potential risks to U.S. financial stability. It is important that the Council use its tools in a manner that is both effective and efficient.

Q.9. Could an FSOC determination that a nonbank financial company was "likely" to experience material financial distress cause a flight of creditors, customers or other counterparties of such firm? How would the FSOC mitigate such a run risk?

A.9. Council members are considering the recommendations made in Treasury's November 17, 2017, report on FSOC designations, and I look forward to working with them to determine how best to implement the recommendations.

Q.10. Under the revised process set forth in the Treasury Report issued last year, would AIG have been designated in 2013?

A.10. I was not involved in the Council's original designation of AIG, so I cannot speak to that process. In 2017, the Council conducted an annual reevaluation of AIG in accordance with the Dodd-Frank Act and the Council's existing procedures regarding nonbank financial company determinations. In that reevaluation,

⁴Supra n. 1.

the Council concluded that AIG no longer met the statutory standard for designation.

Q.11. On page 3 of the Executive Summary, the 2017 FSOC Annual Report says “as a result of postcrisis regulatory reforms, the U.S. financial system is clearly stronger and better positioned to withstand a market shock or an economic downturn than it was before the financial crisis.”

Can you provide examples of reforms you think have been beneficial?

A.11. The creation of the Council itself has been beneficial in bringing together the expertise of Federal financial regulators, State regulators, and an independent insurance expert to share information and collaborate to promote financial stability. The Council serves as an important forum to monitor market developments and identify potential threats to financial stability. The financial system has also benefited from other changes including increased capital and liquidity at our largest financial institutions.

Q.12. The 2016 FSOC Annual Report⁵ contained recommendations concerning the mitigation of operational risk, securities lending risk, and resolvability and transition planning, all under its discussion of asset management products and activities. The 2017 Report omits discussion of these topics.

Why?

A.12. The Council’s 2017 annual report noted that it continued to assess the potential for financial stability risks to arise from certain asset management products and activities, particularly in the areas of liquidity and redemption, leverage, operational functions, securities lending, and resolvability and transition planning.

Q.13. The 2017 FSOC Annual Report discusses multi-employer pension plans, and notes that according to the Pension Benefit Guaranty Corporation (PBGC), over 1 million participants in such plans are facing insolvency.

What is the FSOC doing to mitigate the risks posed by insolvent multi-employer plans?

A.13. Both Treasury and the Council have been very focused on pension-related issues. The Council’s 2017 annual report analyzes risks related to pension funds and notes that the Council supports efforts to improve the quality, timeliness, and depth of disclosures of pension financial statements, as well as the use of market valuation for pension data as described in guidance issued by the Governmental Accounting Standards Board.

Q.14. Could such insolvency cause financial instability across particular demographics or regional economies?

A.14. Sections 4.2.3 and 4.13.4 of the Council’s 2017 annual report describe a number of risks related to pension funds.

Q.15. The Treasury Report on nonbank financial company designations issued last year outlines five policy goals to guide your review of the FSOC’s work.

⁵ <https://www.treasury.gov/initiatives/fsoc/studies-reports/Pages/2016-Annual-Report.aspx>

Why didn't it include a mention of promoting financial stability or preventing a financial crisis?

A.15. The Council's statutory mission includes identifying risks to U.S. financial stability and responding to emerging threats to the U.S. financial system, and I expect all of the Council's activities to further those goals.

Q.16. Can you provide an update on the status of the FSOC hedge fund working group established under the prior Administration?

A.16. The Council is looking at these and other activities as part of its regular work to monitor all sectors of the U.S. financial system.

Q.17. Please provide the legal analysis authored by Treasury Department or FSOC counsel providing the rationale for determining the number of voting members in the vote to de-designate AIG as a nonbank SIFI. This should include the legal rationale providing that a recused member of the FSOC is excluded from the vote tally. Please also provide the legal basis for the Council's understanding that Mr. Noreika's limited term as Acting Comptroller of the Currency had not yet expired at the time of the AIG de-designation vote.

A.17. The minutes of the Council's September 22, 2017, meeting describe in detail the advice I relied on from Treasury's Office of the General Counsel in this matter, as follows:

[The Chairperson] stated that he had been advised by counsel that the phrase "voting members then serving" is best read to refer to members able to serve by casting a valid vote on the issue in question. He explained that the word "serve" is commonly used to mean discharging the duties of an office, and that the effect of a recusal is to prevent a recused member from discharging those duties with respect to a specific vote. He stated that a recused Council member is therefore out of service with respect to a vote he is recused from, even though he continues to hold office and serve on other matters. He then explained that counsel had informed him that this reading of the statutory language was supported by judicial interpretation of similar language in a law that sets the standard for appellate judges to vote for rehearing. He stated that counsel had also informed him that this reading was consistent with other provisions of the Dodd-Frank Act, including section 111(c) (which provides that when an agency head is legally "disabled" by recusal, the acting agency head serves in his place as a Council member on the subject of the recusal) and section 111(i) (which uses the word "serve" in connection with the performance of Council duties, not service as the head of an agency). The Chairperson stated that counsel had also informed him that this reading of the statute was consistent with the common practice of other multi-member bodies, including the SEC, the FDIC, the U.S. Supreme Court, and the Federal appellate courts. Finally, he stated that counsel had informed him that, even assuming there is more than one reasonable interpretation of the

statutory language, this interpretation is more sound because (1) an alternative interpretation would defeat the purpose of recusal by treating a recusal as the equivalent of a “no” vote and would arbitrarily treat vacancies differently from recusals; (2) the alternative interpretation would incentivize parties to engage in strategic behavior to trigger recusals, because a recusal would convert the recused member into an effective “no” vote; and (3) the alternative interpretation could affect the exercise of the resolution authority under Title II of the Dodd–Frank Act, for which Congress used the same “members then serving” language.

I would refer you to the Office of the Comptroller of the Currency regarding the term of Acting Comptroller Noreika.

Q.18. The current FSOC independent member with insurance expertise, Mr. S. Roy Woodall, maintains an independent office outside of Treasury, and recruited a small staff to assist him with his statutory responsibilities, and, with the approval of the other FSOC members, maintained an independent member budget within the larger FSOC budget.

As Chair of the FSOC, are you committed to maintaining an independent budget, staff and office for the incoming FSOC independent member with insurance expertise?

A.18. The independent insurance member’s role on the Council was established by statute to be just that—independent. I expect to continue to support the independence of that office, consistent with the Dodd–Frank Act.

Q.19. On November 20, 2017, Zions Bancorporation issued a press release⁶ in which it announced it would merge its holding company parent into its bank, thus no longer being a bank holding company (BHC) subject to supervision by the Federal Reserve under the Bank Holding Company Act. Section 117 of Dodd–Frank provides that BHCs with more than \$50 billion in assets that were bailed out with taxpayer funds during the financial crisis through the Troubled Asset Relief Program cannot escape Fed supervision by ceasing to be a BHC, and instead should continue to be regulated by the Fed as a nonbank SIFI, unless the FSOC de-designates the firm. Zions indicated in a press release that it would seek such a de-designation.⁷

Given that the Treasury report on FSOC designations from last year said that designations represented a “blunt instrument” approach,⁸ does this mean that Zions Bancorporation will be granted the Section 117 de-designation it seeks?

A.19. At this time, the Council has not received an application under Section 117 of Dodd–Frank from any institution. If the Council receives such an application, I expect the Council to conduct a careful and deliberate analysis on the merits.

⁶<https://www.prnewswire.com/news-releases/zions-bancorporation-announces-plans-to-simplify-its-structure-by-merging-parent-company-into-its-banking-subsiidiary-300559183.html>

⁷Ibid.

⁸Supra n. 1.

Q.20. Will the FSOC be applying the activities-based approach that the Treasury Department recommended in the November FSOC report with respect to BHCs that shed their holding company structure and seek to be de-designated under Section 117?

A.20. The Dodd–Frank Act sets forth the factors the Council is required to consider in the case of an application under section 117 of the statute, and the Council will comply with those statutory obligations.

Q.21. How will the FSOC’s nonbank SIFI final rule and interpretive guidance be applied to a business model like Zions when the nonbank SIFI criteria was never designed to evaluate a bank?

A.21. The Dodd–Frank Act sets forth the factors the Council is required to consider in the case of an application under section 117 of the statute, and the Council will comply with those statutory obligations. In particular, the Council is required to consider whether an applicant under section 117 meets the standards under section 113—namely, whether the company’s material financial distress, or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities, could pose a threat to U.S. financial stability. The Council will be able to consider whether a former bank holding company meets those standards.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR SASSE
FROM STEVEN T. MNUCHIN**

Q.1. I’d like to continue our ongoing conversation about deficits and the debt, in light of the Treasury Department’s obligation to advise the President on “domestic and international financial, monetary, economic, trade and tax policy . . .” In response to my questions for the record for your May 18, 2017, Senate Banking Committee appearance, you agreed with the Financial Report of the U.S. Government’s statement that “the projected continuous rise in the debt-to-GDP ratio indicates that current policy is unsustainable.” You also said that “[r]educing the deficit to levels that are sustainable over time is critical . . .” and agreed that “a continually increasing level of debt to GDP is not sustainable.” (citation and quotation omitted).

While I appreciate that answer, it was not responsive to whether you agreed with then-Federal Reserve Chair Yellen that “fiscal policymakers should soon put in place a credible plan for reducing deficits to sustainable levels over time.”

Do you agree with this?

A.1. The President’s 2019 Budget is a credible plan to reduce deficits to sustainable levels over time. Under the President’s budget, the debt-to-GDP ratio slowly rises until 2022 at 81.9 percent, and then falls rapidly to 72.6 percent in 2028.

Q.2. If so, what should the targeted debt-to-GDP ratio be?

A.2. The President’s 2019 budget will reduce the debt-to-GDP ratio as the economy grows and further reduces Federal spending. We do not target a specific debt-to-GDP ratio.

Q.3. Is it possible to address the projected unsustainable rise in debt-to-GDP ratio without reforming nondiscretionary spending,

particularly in light of your statement in response to my May questions for the record that an aging population will result in increased Government spending and reduced tax receipts?

A.3. No. The extent to which those programs needs to be reformed, however, can be mitigated by robust economic growth as a result of the tax, trade, and regulatory policies promoted by the Administration in the FY2019 budget.

Q.4. Should the Administration consider policy reforms that could reduce nondiscretionary spending, in order to reduce our debt and deficit over time?

A.4. In the President's budget our economic program and reduced Federal spending will reduce our debt.

Q.5. If so, what policies should the Administration consider? Should the Administration preserve any particular nondiscretionary program (such as Medicare or Medicaid) from reforms?

A.5. The President's Budget recommends efficiency-enhancing reforms across a wide spectrum of nondiscretionary programs. It is important that those reforms do not adversely affect those who are at or near retirement age and therefore unable to plan for changes in expected benefits, but no program should be exempt from changes that promote efficient operations and the elimination of wasteful spending.

Q.6. I'd like to continue our ongoing conversation about trade. In my questions for the record for now-Federal Reserve Chairman Jerome Powell's November 28th, 2017 confirmation hearing, I asked now-Chairman Powell if the measure of the U.S.'s trade deficit with another country (the bilateral trade deficit) was "a useful metric to consult to evaluate whether trade with that country hurts or helps our economy." In response, now-Chairman Powell said: The overall U.S. trade balance is the most useful measure for evaluating the impact of trade on the U.S. economy. That balance is affected by many factors, including savings and investment in the United States, economic conditions abroad, and movements in exchange rates. Bilateral trade deficits are less informative. For example, U.S. workers and businesses could benefit when the United States runs a deficit with one country by importing goods that we use as inputs to produce goods to sell to another country. In this example, a focus on the bilateral deficit would obscure the net effect on the U.S. trade balance and the overall benefit to the economy.

Do you agree with Chairman Powell that "[b]ilateral trade deficits are less informative?" If so, why does the Administration aim in NAFTA renegotiations to reduce our bilateral trade deficit with Mexico and Canada?

A.6. The Administration has focused its trade policies on countries with which we have large trade deficits in goods and we will continue to seek to reduce a range of unbalanced trade relationships.

Specifically, we continue to press our trading partners to reduce tariffs, remove nontariff barriers that block U.S. exports, counter dumping and unfair subsidies with robust trade remedies, and tackle unfair trade practices more generally.

In examining the trade practices of countries with which we have large trade deficits, we have identified a number of barriers that we can work to remove in order to help U.S. workers and firms in support of the Administration's trade agenda.

Our effort to modernize NAFTA is a top Administration priority and a key part of our trade agenda.

Q.7. I'd like to discuss cybersecurity. I understand that some of these questions may involve classified and law enforcement-sensitive information, and I am eager to work with you to adapt my request in a manner that accommodates public safety and national security interests while ensuring maximum transparency for the American people. In your January 30, 2018, appearance before the Senate Banking Committee, you were asked by Senator Crapo "[w]here does the FSOC see gaps or shortfalls in cybersecurity protection today?" While you did speak to the importance of "always . . . advancing issues" you also said that "I don't see any specific gaps today."

Can you elaborate on what you mean by that statement? For example, do you believe no major structural changes are necessary for our Nation's cybersecurity efforts, even in light of the Equifax breach and the SEC breach of their EDGAR filing system?

A.7. Treasury's work depends on partnerships with various stakeholders, including private sector institutions and industry groups, and other Government entities to enhance the security and resilience of the U.S. financial services sector. As Treasury is not a regulator, we do not have knowledge of specific weaknesses of specific institutions regarding cybersecurity that may have been identified through the course of regulatory examinations. While there is comprehensive cybersecurity regulation in place for institutions that are covered by financial regulators, we must address the challenge of correctly implementing and maintaining what we know must be done.

The two tenets of Treasury's mission, maintaining a strong economy and strengthening the national security by combating threats to the U.S. financial system and the economy, have been furthered by driving discussions and conversations. So, while we continue to work to centralize cybersecurity leadership within Treasury to work collaboratively and transparently to protect critical financial infrastructure, we do not see any specific gaps at this moment. We instead must work to mitigate risk that we naturally carry with proper information sharing through our various partnerships.

Q.8. What steps is the Treasury Department taking to improve cybersecurity at our Nation's financial institutions and within the Treasury Department itself?

A.8. Treasury's efforts are focused on helping the financial services sector improve its security as the sector-specific agency under Presidential Policy Directive 21 (dated February 21, 2013). Since Treasury itself is not a regulator in this area, as mentioned above, our ability to be effective depends on a wide range of both public and private partnerships. Treasury's efforts, led by the Department's Office of Critical Infrastructure Protection and Compliance Policy, works closely with the many members of the private sector, the Department of Homeland Security, law enforcement, Federal and

State financial regulators through the Financial and Banking Information Infrastructure Committee (FBIIC) to reduce cybersecurity and operational risk and improve resilience in the financial sector.

We work to reduce these risks in various ways. We are a strong proponent and driver for effective and timely cybersecurity information sharing. This includes not only sharing information from the Government to the sector, but encouraging sector members to share information with each other. This helps other institutions identify and deflect cybersecurity attacks. Or, if an institution is already breached with a contagion, increased sharing helps improve the ability to identify, contain, and eradicate the malicious code.

Another example of our work is our Hamilton Exercise Program, which is geared toward major functions of the U.S. financial sector. Treasury has also carried out regional cybersecurity exercises focused specifically on smaller financial sector companies. These exercises are an opportunity for firms to practice incident response procedures; share and refine best practices; develop stronger connections with similar firms in their communities; and, often, for regulators to engage in a neutral setting. This program, and others like it, benefit smaller firms, which are a key component of our financial sector.

Internally, Treasury continuously evaluates its cybersecurity posture to understand areas of strength and identify opportunities for improvement. Treasury actively partners with the Department of Homeland Security (DHS) to implement Federal-wide initiatives to improve cybersecurity defenses. These have included implementation of Trusted Internet Connections, the National Cybersecurity Protection System, and the Continuous Diagnostics and Mitigation program. Treasury also leverages multiple services provided under the DHS National Protection and Programs Directorate's Office of Cybersecurity and Communications to help all Federal civilian agencies improve their cybersecurity defense.

In addition, the Department has identified opportunities to enhance cyberdefense across the enterprise through strategic investment in additional technical capabilities. The Department is also in the process of implementing the NIST cybersecurity risk framework. Treasury is executing multiple projects to introduce new capabilities across the Department, including Data Loss Prevention, inspection of encrypted network traffic, automated incident response for workstations and servers, and enhancement of enterprise threat analysis capabilities. Finally, Treasury engages with its bureaus to develop and implement plans to mitigate any potential weaknesses identified in weekly DHS vulnerability scans, quarterly Risk Management Assessments from the Office of Management and Budget, and annual cybersecurity program evaluations conducted by the Department's Inspectors General.

Q.9. Are you concerned that a cyberbreach at the Treasury Department could jeopardize the Treasury Department's operations, endangering national security, or cause broader systemic financial risk? If so, please describe the consequences of such breaches.

A.9. As the steward of U.S. economic and financial systems, the Department of the Treasury performs functions that are critical to

the Nation's financial infrastructure, such as the production of coin and currency, the disbursement of payments to the American public, revenue collection, and the borrowing of funds necessary to run the Federal Government. To accomplish the Department's mission, Treasury bureaus operate information systems that store, process, and/or transmit information of varying degrees of sensitivity. To identify which of its systems would, if breached, pose the greatest risk to Departmental operations, national security, and/or broader financial systems, Treasury applies Federal-wide guidance for managing critical infrastructure and information systems. This allows the Department to prioritize cybersecurity defense of those systems and infrastructure for which a breach would be most likely to cause the greatest harm.

The consequences of a breach (i.e., a cybersecurity incident resulting in exfiltration of sensitive information to unauthorized parties or to authorized parties for unauthorized purposes) of any critical infrastructure system or other information system would depend on the specific nature of the affected system, but could potentially include: exposure of personally identifiable information of U.S. taxpayers, increasing their risk of monetary or identity theft; or loss of Federal revenue.

Q.10. How many cyberbreaches have there been at the Treasury Department? Have any of these breaches come close to jeopardizing the Treasury Department's operations, endangering national security, or causing broader systemic financial risk?

A.10. Treasury understands "cyberbreaches" to refer to incidents like those reported to have occurred at Equifax and the Securities and Exchange Commission, in which unauthorized parties exfiltrate sensitive data from agency information systems. Between 2008 and 2012, network intrusions and system compromises involving Advanced Persistent Threat (APT) actors led to three incidents in which sensitive data was found to have been exfiltrated. The Department responded by working to mature computer network defenses, particularly targeting vulnerabilities known to be exploited by APT actors. Since 2012, no further such intrusions have been detected.

Subsequent cyberbreaches affecting Treasury data have leveraged public-facing applications that provide access to data from the Internal Revenue Service (IRS). These breaches did not result from technical weaknesses in the affected systems. In each case, individuals utilized personally identifiable information stolen from non-Treasury sources to impersonate taxpayers to the applications, thereby gaining inappropriate access to taxpayer data. Since 2015, Treasury has experienced and reported two such incidents involving IRS applications. The breaches did not endanger national security or introduce systemic financial risk, but the breaches did impact IRS operations as well as increase the likelihood that fraudulent tax returns would be processed. In response to this threat, the IRS has tightened authentication requirements for its public-facing applications. This has led criminals to explore other means of exfiltrating taxpayer data. Treasury and the IRS are continuing efforts to identify and block potential avenues of taxpayer data exfiltration.

Q.11. What is the most likely cyberthreat to our financial system?

A.11. There are a wide range of cyberthreats to our financial systems; none of these are particularly novel or surprising. It is impossible to say any one threat is the most likely, given the widespread diversity of our financial system, both geographically (to include the cloud in some cases), and in terms of a wide range of heterogeneous new and legacy technologies. In some cases, the biggest cyberthreat is an indirect one due to a reliance upon another critical infrastructure such as energy or telecommunications. We need to examine the question from an all-hazards approach, in order to strengthen cybersecurity, we need to help better prepare the sector from threats than can result in the greatest harm, such as: trusted insiders with highly privileged access, phishing and related attacks as a way to plant destructive malware into a network. Another example would be an attack exploiting a “zero-day” vulnerability, which leaves no opportunity of detection there would be no patch already available; poor cyberhygiene (timely patching, secure configurations, sound network design, etc.), physical threats (ranging, for example, from hurricanes, to fires, to terrorism) and outside attackers. As such, Treasury remains dedicated to working with the private sector and regulators to better prepare the financial services sector.

Q.12. How could a large scale cyberattack on our financial system impact the U.S. economy and international economy? For example, are you concerned that hackers could pose a national security or systemic risk by accessing the live markets and shutting down trading, deleting trade information, or otherwise sparking a major crisis?

A.12. There is a high degree of redundancy and resiliency built into most institutions of the sector. For example securities are usually traded on multiple exchanges and exchanges themselves have their own backup facilities and services, typically real-time failover. This redundancy reduces the expected impact on the economy because a large scale attack would require a concerted attack on more than a dozen exchanges and their backup facilities. Furthermore, exchanges, as private-sector entities have the authority to order a shutdown should they detect a situation that warrants it.

To help decrease the likelihood of similar attacks against multiple institutions, I cannot emphasize enough the importance of sharing information within the sector. We are able to better understand our risk when we communicate effectively with the sector as a whole. I have instructed my staff to be as supportive as they are able, but it is important to note that the private sector owns and operates the bulk of the critical infrastructure that Treasury and others in Government seek to help protect. It is also critically important to highlight that Treasury’s cybersecurity mission is designed to support not just large financial institutions, but also the smaller financial sector companies that are the primary interface with the financial system for millions of Americans.

Treasury works on a regular basis to assist all financial sector companies large and small by encouraging the use of baseline protections, assisting with response and recovery activities, and facilitating information sharing. Treasury does this work in close part-

nership with the Department of Homeland Security, law enforcement, financial regulators, and industry groups such as the Financial Sector Information Sharing and Analysis Center.

Q.13. If so, please describe the consequences of such a breach.

A.13. I have stated before that nongovernmental estimates have found the cost of criminal data breaches will cost global businesses \$8 trillion over the next 5 years. At this time it is not possible to estimate the consequences of a specific hypothetical breach.

It is not possible to estimate the consequences of a hypothetical breach.

Q.14. Is the Treasury Department considering recommending or imposing new regulations on financial institutions or recommending or new agency policies, in order to mitigate cybersecurity risk? If so, what regulations or policies?

A.14. As mentioned above, the Financial and Banking Information Infrastructure Committee (FBIIC) continues to serve as a successful venue for coordinating approaches among agencies with different statutory authorities, and Treasury believes that FBIIC should be the focal point to drive domestic regulatory harmonization efforts. By harmonizing cyberregulatory requirements and oversight procedures, industry tells us that significant efficiencies will result. Within FBIIC, Treasury has supported efforts to promote the National Institute of Standards and Technology (NIST) Cybersecurity Framework as a common lexicon for regulatory agencies to incorporate into their supervisory efforts; to expand and complete efforts to map existing regulatory guidance to reflect and incorporate appropriate elements of the Framework; and to advance work as to whether cybersecurity examinations could be further coordinated. Treasury has also worked to help inform industry of the NIST voluntary framework and its uses.

Q.15. Is there a risk that new cybersecurity regulations could actually introduce some cybersecurity risk by introducing an incentive for companies to focus more on complying with the regulation, instead of leveraging private sector resources to implement innovative cybersecurity techniques? If so, what steps can be taken to mitigate this risk?

A.15. Broadly speaking, in the past, we have certainly seen that the introduction of ill-informed, poorly coordinated, duplicative regulation across the multiple regulators in the sector has resulted in significantly increased regulatory compliance burden.

Therefore, as mentioned above, an end goal of our current cybersecurity harmonization effort is to reduce burden by harmonizing existing regulations, eliminating any that may no longer be necessary (e.g., due to advances in protective technologies) and thereby improve cybersecurity by freeing up resources to invest in improving security. In order to move in this direction to benefit Americans and the financial services sector, we need to complete and further efforts by Treasury to promote the National Institute of Standards and Technology (NIST) Cybersecurity Framework as a common lexicon for regulatory agencies to incorporate into their supervisory efforts to facilitate this reduction of duplicative regulation.

Q.16. I'd like to ask about our sanctions policy toward North Korea. I understand that some of these questions may involve classified and law enforcement-sensitive information, and I am eager to work with you to adapt my request in a manner that accommodates public safety and national security interests while ensuring maximum transparency for the American people.

Since North Korea was designated a State Sponsor of Terrorism on November 20, 2017, has the Treasury Department, in coordination with the State Department, seen a reduction in financial flows to the North Korean regime? If so, where is that reduction primarily coming from?

A.16. The State Department's determination that North Korea is a State Sponsor of Terrorism did not have a direct impact on our assessment of financial flows to North Korea, in part because U.S. and U.N. sanctions against North Korea were already—and continue to be—so robust. U.S. sanctions, including those that Treasury imposes, allow us to target any person who engages in significant trade with North Korea or has operated in any one of 10 identified industries of North Korea, among other things. Treasury has used its authorities broadly and aggressively to target financial networks and facilitators of the regime. Over the past several months, Treasury has designated dozens of companies that were collectively responsible for hundreds of millions of dollars in trade with North Korea. In addition to U.S. sanctions, U.N. sanctions are having an impact on financial flows to North Korea. The U.N. maintains export bans on sectors that collectively represented \$1 billion of hard currency earnings for the regime per year.

Q.17. Does the Treasury Department have a minimum estimate of revenue the North Korean regime receives from its "guest worker" partnerships? If so, what is that estimate?

A.17. The Associated Press estimated last October that labor brings in revenue of \$200 million to \$500 million annually to the North Korean Government, most of which comes from China and Russia. My staff would be happy to provide further details in a classified briefing.

Q.18. Which countries host North Korean "guest workers"?

A.18. Russia and China host the majority of North Korean laborers. Gulf countries and countries throughout Africa have historically hosted several thousand workers. My staff would be happy to provide further details in a classified briefing.

Q.19. In your opinion what are primary policy options if the United States was to penalize foreign partners, allies, and adversaries that host North Korean work crews within their countries?

A.19. The United States continues to apply maximum economic and diplomatic pressure to counter North Korea's illicit finance activities that support its nuclear and ballistic missile program, including the use of North Korean laborers. U.N. Security Council

Resolution 2397 calls on Member States to expel North Korean laborers in their territories by December 2019 and Member States are also prohibited from issuing new work visas to North Korean laborers. In line with the U.S. Government's approach that U.N. Security Council resolutions are the floor, not the ceiling, Treasury

is using all of its available tools to disrupt North Korean laborers from earning funds in support of North Korea's ballistic and nuclear weapons program. In most cases, North Korean workers only receive a portion of their earnings and the majority of their wages are provided directly to the regime. We are taking a number of steps to address this issue. First, Treasury is designating individuals and entities that are facilitating the exportation of North Korean laborers overseas. Second, the U.S. Government, including Treasury, is pressing all countries to immediately expel North Korean laborers and is clearly messaging its willingness to designate any foreign companies involved in hiring North Korean labor. Third, we are isolating the North Korean financial system in order to disrupt the flow of funds to North Korea. North Korea's embassies abroad are often involved in arranging contracts for laborers and the U.S. Government is actively urging all countries to ensure that North Korea downsizes its diplomatic staff in each embassy.

Q.20. Is the Treasury Department currently considering pursuing any of these options?

A.20. The Department of the Treasury remains aggressive in working to identify and sanction entities and individuals involved in North Korea's illicit finance activities, including the use of North Korean laborers to support its nuclear and ballistic missile programs. The U.S. Government, including Treasury, is also engaging with foreign Governments to urge them to immediately expel North Korean workers.

On November 21, 2017, Treasury designated Korea South-South Cooperation Corporation, which has operated in at least China, Russia, Cambodia, and Poland, for its involvement in exporting workers from North Korea.

On October 26, 2017, Treasury identified the External Construction Bureau and the Ch'olhyo'n Overseas Construction Company pursuant to E.O. 13722 as agencies, instrumentalities, or controlled entities of the Government of North Korea or the Workers' Party of Korea. OFAC also designated Kim Kang Jin, the Director of the External Construction Bureau, pursuant to E.O. 13687 for being an official of the Government of North Korea or the Workers' Party of Korea. Beyond North Korea, the External Construction Bureau has been located in Kuwait, Oman, Qatar, and the United Arab Emirates. The Ch'olhyo'n Overseas Construction Company is reported to earn foreign currency for North Korea, and it has been located in Algeria. According to the State Department report issued simultaneously with these sanctions measures, "employees of Ch'olhyo'n are kept in slave-like conditions, including having salaries and passports withheld by DPRK security officials assigned as site supervisors, meager food rations, poor living conditions, and severe restrictions on their freedom of movement."

Since the start of this Administration, Treasury leadership has engaged with countries throughout the Gulf, Africa, and Southeast and East Asia to press them to immediately expel laborers.

Q.21. Are there currently any countries that procure North Korean arms and thus fund North Korea military activities? If so, what are those countries?

A.21. The procurement of North Korean arms remains a critical concern, and Treasury continues to investigate any individual or entity involved in purchasing arms or providing North Korea funds for military or police training. We would be happy to provide additional information on countries currently involved in this activity in a classified setting. As part of its overseas procurement networks, North Korea maintains weapons representatives abroad to both sell and buy weapons and dual-use goods for North Korea. Most recently, on January 24, 2018, Treasury designated ten North Korean representatives of the U.N.- and U.S.-designated Korea Ryonbong General Corporation. The representatives were located in China, Russia, and Georgia and we continue to press those countries to immediately expel the representatives. According to the United Nations Panel of Experts February 2018 Final Report, North Korea continues robust military cooperation and arms sales with Syria, Myanmar, Mozambique, and other African Nations. The Panel has also reported that over 40 shipments were made by North Korea to the U.S.-designated Syrian Scientific Studies and Research Center (SSRC) since 2012, including acid-resistant tiles used for large-scale chemical manufacturing facilities but not including chemical weapon components or materials. While Treasury does not comment on investigations of specific potential targets, Treasury does continue to investigate all instances of procurement and weapons sales and will not hesitate to use its authorities to target any individual or entity involved.

Q.22. What is the minimum estimate of revenue the Kim regime receives from those transactions?

A.22. We would be happy to discuss this in a classified setting.

Q.23. Has the U.S. Treasury imposed sanctions on these countries for these transactions with the North Korean military?

A.23. Yes, Treasury has and will impose sanctions on any person that procures arms from North Korea or otherwise supports the North Korean military, in addition to sanctions on any person that facilitates revenue for North Korea's weapons of mass destruction (WMD) or ballistic missile programs. For instance, on January 24, 2018, we designated representatives of Korea Ryonbong General Corporation, which specializes in acquisition for North Korean defense industries and support to Pyongyang's military sales. The same day, we also designated Dandong Jinxiang Trade Co., Ltd., which reportedly conducted trade with U.N.- and U.S.- designated Tangun Trading Corporation, a North Korean company that is primarily responsible for the procurement of commodities and technologies to support North Korea's defense research and development programs. Similarly, in June 2017, Treasury designated Ardis Bearings LLC, a Moscow-based company, for its support to Tangun Trading Corporation.

Q.24. On February 2, 2018, it was reported that in 2017 North Korea violated U.N. sanctions to earn an estimated \$200 million from exporting coal, iron, steel, and other commodities. Is the Treasury Department considering any steps that could reinforce U.N. sanctions and encourage implementation?

A.24. We aggressively pursue for designation any person that violates U.N. sanctions. Since the start of this Administration, Treasury has sanctioned 212 companies, individuals, and vessels for North Korea-related activities. Most of these designations are connected to U.N. sanctions violations. For example, on February 23, 2018, we sanctioned 27 entities, 28 vessels, and one individual in response to ongoing U.N. sanctions violations. Among those sanctioned, nine were international shipping companies and their nine vessels that have been used to transport coal from North Korea or engaged in U.N.-prohibited ship-to-ship transfers of refined petroleum products. Also in that action, we designated Tsang Yung Yuan, who has a history of sanctions evasion activities and has coordinated North Korean coal exports with a Russia-based North Korea broker. Treasury also designated two of Tsang's companies, Pro-Gain Group Corporation and Kingly Won International. Also on February 23, we issued a shipping advisory to alert persons globally to the deceptive shipping practices used by North Korea to evade sanctions. The North Korean shipping industry is a primary means by which North Korea evades sanctions to fund its nuclear weapons and ballistic missile programs.

Q.25. Last year significant progress was made in isolating the North Korean regime from SWIFT. Can you provide an update on the current progress on isolating the regime's access to the financial messaging service? Is there more work to be done?

A.25. In March 2017, SWIFT cut off the four North Korean banks that were still connected to its system. As a result, North Korea no longer has direct access to the international messaging system through SWIFT but Treasury remains concerned that North Korea uses deceptive practices to indirectly access the international financial system such as through front companies and financial and trade operatives who earn and move money through the international financial system and are located outside of North Korea. As the U.N. Panel of Experts (PoE) noted in its most recent report, in 2017, more than 30 representatives of North Korean banks and trade companies operate outside of North Korea in countries such as China and Russia, in contravention of United Nations Security Council resolutions (UNSCRs). The PoE also noted that these trade and financial representatives play a role in supporting North Korea's prohibited programs, including by acting as fronts for designated entities and individuals, as well as engaging in commercial activities that violate the UNSCRs. Treasury is very focused on highlighting this activity and taking steps to shut it down. Treasury has now sanctioned 26 North Korean financial representatives and 12 representatives of weapons-related entities known to have operated in China. These North Korean operatives are highly skilled and trusted, and we have repeatedly called on China and Russia and other countries to expel them.

Q.26. I'd like to ask about our sanctions policy toward Russia. I understand that some of these questions may involve classified and law enforcement-sensitive information, and I am eager to work with you to adapt my request in a manner that accommodates public safety and national security interests while ensuring maximum transparency for the American people.

On January 29, 2018, the Trump administration announced it would not impose additional sanctions against individuals and entities doing business with the Russian defense and intelligence sectors because the Countering America's Adversaries Through Sanctions Act (CAATSA) was "serving as a deterrent." Has the Treasury Department withheld implementing Congressional sanctions because of a "deterrent" effect in the past? If so, when and under what circumstances?

A.26. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.27. What are the specific metrics the Department of Treasury used to calculate a "deterrent" effect?

A.27. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.28. What level of divestment from those industries constituted a "substantial reduction" and therefore warranted the decision to not impose sanctions?

A.28. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.29. What is the level of investment in those industries that would be considered "substantial" and would necessitate the consideration of sanctions?

A.29. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.30. What was the specific time horizon used to make the determination that there was a "substantial reduction" in transactions to these sectors?

A.30. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.31. Who are the primary individuals, entities, and States that currently investing in the Russian defense and intelligence sectors?

A.31. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.32. Since the adoption of CAATSA, has Treasury witnessed attempts at sanctions evasion? If so, what are the primary ways and means that the Russian defense and intelligence sectors are receiving continued funds?

A.32. We refer you to the Department of State, which has responsibility for implementing Section 231 of CAATSA.

Q.33. The initial release of the unclassified oligarch and parastatal entity list seems to have been hastily thrown together. Numerous analysts have made the comment that the unclassified list seems to primarily rely on a Forbes list of Russian billionaires. How can you stand by both the unclassified and classified reports as accurate representations of fulfilling the letter and the spirit of Section 241 (a) of CAATSA?

A.33. This Administration is very focused on pressuring Russia for its continued efforts to destabilize Ukraine, occupy Crimea, meddle in elections, as well as for its endemic corruption and human rights abuses. Our most recent Russian related action on April 6, 2018,

specifically targeted Russian oligarchs and elites who profit from Russia's corrupt system. OFAC designated 7 Russian oligarchs and 12 companies they own or control, 17 senior Russian Government officials, and a State-owned Russian weapons trading company and its subsidiary, a Russian bank, under Executive Order (E.O.) 13661 and E.O. 13662, authorities codified (CAATSA), as well as E.O. 13582.

To date, the Administration has sanctioned 136 individuals and entities under our Ukraine/Russia-related sanctions authorities. On January 26, 2018, Treasury sanctioned 42 individuals and entities, and in 2017, Treasury imposed sanctions on 58 individuals and entities related to Russia and Ukraine. We also target Russian malign activities through other sanctions authorities. On March 15, 2018, OFAC designated five entities and 19 individuals under CAATSA and E.O. 13694 for their role in conducting destabilizing activities, ranging from interference in the 2016 U.S. election to conducting destructive cyberattacks, including the NotPetya attack, which was launched by the Russian military and was the most destructive and costly cyberattack in history.

On December 20, 2017, we designated five individuals pursuant to the Sergei Magnitsky Rule of Law Accountability Act of 2012, bringing the total designated under this program to 49. Additionally in 2017, we designated nine Russians targeted for malign activities related to the North Korea sanctions program, and the President imposed sanctions on two Russians under Executive Order 13818, which implements the Global Magnitsky Human Rights Accountability Act.

Treasury's track record demonstrates that we have and will continue to actively target the full range of Russian malign activities. And in considering additional future measures, Treasury will look for opportunities to use the full range of authorities at its disposal, including CAATSA. We treat responsibility of administering U.S. sanctions programs with the utmost seriousness. The report required under CAATSA Section 241 was released in an unclassified form, with a classified annex that reflects in great detail the extensive work of experts within the Department of the Treasury, the Office of the Director of National Intelligence (ODNI), and the Department of State, as well as other key agencies. For the purposes of the unclassified report, and consistent with our interest in avoiding asset flight and protecting intelligence sources and methods, we wanted to cast a wide net that encompassed a range of senior political figures and oligarchs while not tipping our hand to any future action. A critical aspect of effective sanctions implementation is avoiding providing notice to potential targets in order to reduce the risk that they can move their funds or obscure their connection to property in which they have an interest. By releasing the report in the manner we did, Treasury sought to respond to the provisions of the statute while preserving our ability to take meaningful action against potential future targets. As I have made clear, we are using the report to inform future actions.

Q.34. Are there changes to either Section 241 or CAATSA more broadly that Congress should consider that would lead to the development of a list that achieves its desired end; namely, public identification of Putin's closest associates?

A.34. We do not have suggestions at this time, but note that publicizing such associates risks tipping them off that they may be subject to sanctions. We would be pleased to have discussions with you or your staff on this question, and we stand ready to brief you or your staff on Treasury's efforts to target and counter the full range of Russian malign activities.

Q.35. Is the Treasury Department considering imposing sanctions on any of the individuals identified in either the classified or unclassified lists required by Section 241? If so, how many?

A.35. We cannot comment on possible future designations or on the status or existence of ongoing investigations. However, we remain aggressive in working to identify and sanction entities and individuals involved in these activities. As I have made clear, we are using the report to inform future actions.

Q.36. I'd like to ask about our sanctions policy towards Hezbollah. I understand that some of these questions may involve classified and law enforcement-sensitive information, and I am eager to work with you to adapt my request in a manner that accommodates public safety and national security interests while ensuring maximum transparency for the American people.

On Friday, February 2, 2018, the Department of Treasury's Office of Foreign Assets Control (OFAC) designated 6 individuals and 7 entities with terror-related sanctions and specifically targeted connections to Adham Tabaja, a Specially Designated Global Terrorist (SDGT). Are there additional individuals and entities with ties to Tabaja that have not been designated? If so, how many and what was the justification for not designating them?

A.36. We cannot comment on possible future designations or on the status or existence of ongoing investigations. However, any person whom we determine has provided material support to, or has acted for or on behalf of, Adham Tabaja or Hezbollah, can be designated. In general, we continue to investigate networks of Specially Designated Nationals and Blocked Persons (SDNs) following their designation, and, as evidenced by our February 2, 2018, action, designate additional persons as appropriate.

Q.37. Can you provide a minimum estimate for the amount of funding Tabaja secured for Hezbollah since his designation as a SDGT?

A.37. We would be happy to discuss this in a classified setting.

Q.38. How many other individuals currently designated as SDGTs, are continuing to act as financiers for Hezbollah?

A.38. In general, we continue to investigate the networks associated with SDNs following their designation, and as evidenced by our February 2, 2018, action, designate additional persons as appropriate.

Q.39. Can you provide a minimum estimate for the amount of funding these other individuals have secured for Hezbollah over the last 5 years?

A.39. We would be happy to discuss this in a classified setting.

Q.40. Does the Treasury Department regularly estimate and monitor the assets of key Hezbollah officials and how these assets were

acquired? If so, does Treasury provide regular reporting on these estimates to Congress?

A.40. We would be happy to discuss this in a classified setting. On an annual basis, OFAC produces the Terrorist Assets Report (TAR) for Congress which identifies blocked property in the interest of various designated terrorist organizations, including those of Hezbollah. The TAR also identifies blocked property in the interest of State Sponsors of Terrorism. The most recent report is available at <https://www.treasury.gov/resource-center/sanctions/Programs/Documents/tar2016.pdf>.

Q.41. Since the adoption of the Hezbollah International Financing Prevention Act (HIFPA), how has Hezbollah's financing network evolved to continue financing its activities?

A.41. We continue to use all available authorities to target Hezbollah and its networks of terrorists regardless of where they operate. We are committed to imposing sanctions against Hezbollah, and we will continue to expose, block, and disrupt Hezbollah's finances and deny Hezbollah access to the U.S. and international financial systems. As Hezbollah continuously evolves its methods for financing its operations, we're able to use an extremely broad set of authorities, including HIFPA, to target their activities. The Treasury Department has designated Hezbollah pursuant to three Executive orders, and the State Department has designated the group as a Foreign Terrorist Organization. In addition, Treasury has designated over 110 individuals and entities for their material, financial, or other support to Hezbollah. These actions, combined with international engagement, continue to place significant strain on Hezbollah's financial and commercial facilitators. The Treasury Department also works with Lebanese and third-country authorities where Hezbollah operates to target Hezbollah's finance and procurement networks in Lebanon and across the globe, restricting access to financial institutions, identifying new avenues to curb Hezbollah's operations, and designating Hezbollah operatives and supporters.

Q.42. Is the Treasury Department considering secondary sanctions under HIFPA to financial institutions that bank for Hezbollah members and its associates outside of the Middle East, specifically in Europe, Africa, and South America?

A.42. We cannot comment on possible future designations or on the status or existence of ongoing investigations. However, we remain aggressive in working to identify and sanction entities and individuals involved in these activities.

Q.43. If the Treasury Department is considering secondary sanctions on these institutions why has it not acted to impose secondary sanctions?

A.43. Treasury cannot comment on possible future designations or on the status or existence of ongoing investigations. However, through our global engagement, we highlight to third-countries the risk of secondary sanctions if their banks engage in transactions with Hezbollah.

Q.44. Are there criminal activities that Hezbollah engages in that are currently not covered under U.S. sanctions?

A.44. No, Hezbollah is already subject to U.S. sanctions. Hezbollah is designated pursuant to three Executive orders, including two counterterrorism-related authorities and one of our authorities targeting the Syrian regime, in addition to the State Department's designation of the group as a Foreign Terrorist Organization. Each of these authorities imposes blocking sanctions on persons determined to meet the criteria for designation. In addition, OFAC can prohibit or impose strict conditions on the opening or maintaining in the United States of a correspondent account or a payable-through account on any foreign financial institution OFAC determines to have knowingly facilitated a significant transaction for Hezbollah. As a result, OFAC has wide authorities to designate Hezbollah and those providing material support to, or acting for or on behalf of, Hezbollah.

Q.45. Does the Treasury Department have a list of what have been called "super facilitators," individuals who are not personally members of Hezbollah but provide the organization with specific services to enhance its criminal enterprises?

A.45. Treasury cannot comment on possible future designations or on the status of, or existence of, ongoing investigations. As evidenced by our February 2, 2018, designation of 13 persons as SDGTs with ties to Hezbollah, Treasury is determined to expose and disrupt Hezbollah's financial, facilitation, and support networks. We are aggressively investigating and taking appropriate action against individuals and entities who provide material support to the organization.

Q.46. Does the Treasury Department have a minimum estimate for the amount of funding these "super facilitators" have secured for Hezbollah over the last 5 years?

A.46. We would be happy to discuss this in a classified setting.

Q.47. Is the Treasury Department considering designating Hezbollah as a Transnational Criminal Organization (TCO)?

A.47. Hezbollah is already designated pursuant to three Executive orders, including two counterterrorism-related authorities and one of our authorities targeting the Syrian regime, in addition to the State Department's designation of the group as a Foreign Terrorist Organization. Each of these authorities imposes blocking sanctions on persons determined to meet the criteria for designation. Treasury's Office of Foreign Assets Control also issued regulations in April 2016 implementing the Hezbollah International Financing Prevention Act of 2015. The regulations impose secondary sanctions on any foreign financial institution that is determined to be knowingly engaged in significant financial activities related to Hezbollah. As a result, a designation of Hezbollah as a Transnational Criminal Organization would not impose any additional sanctions or restrictions not already in place against Hezbollah. However, we will continue to review this possible authority.

Q.48. If the Treasury Department is considering designating Hezbollah as a TCO why has it not proceeded to designate?

A.48. Hezbollah is already designated pursuant to three Executive orders, including two counterterrorism-related authorities and one

of our authorities targeting the Syrian regime, in addition to the State Department's designation of the group as a Foreign Terrorist Organization. Each of these authorities imposes blocking sanctions on persons determined to meet the criteria for designation. Treasury's Office of Foreign Assets Control also issued regulations in April of 2016 implementing the Hezbollah International Financing Prevention Act of 2015. The regulations impose secondary sanctions on any foreign financial institution that is determined to be knowingly engaged in significant financial activities related to Hezbollah. As a result, a designation of Hezbollah as a Transnational Criminal Organization would not impose any additional sanctions or restrictions not already in place against Hezbollah.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR MENENDEZ FROM STEVEN T. MNUCHIN**

Q.1. Last year, the Administration proposed cutting more than \$6 billion dollars from critical Federal housing and community development programs like CDBG, and supportive housing for the disabled and the elderly. When asked about this, Secretary Carson said the Administration "considers housing a significant part of infrastructure," and not to worry because "the infrastructure bill that's being worked on has a significant inclusion of housing in it." So I was surprised to see there's not a single mention of housing in any reports of the President's infrastructure plan.

Does the Administration consider our aging affordable housing stock part of our Nation's infrastructure?

A.1. The President's recent infrastructure outline is a comprehensive framework that addresses more than just traditional infrastructure and aims to promote investment across American communities. We look forward to working with Congress to enact infrastructure legislation.

Q.2. What specific plans does the Administration have to invest in preservation and creation of affordable homes to address our current shortage of more than 7 million affordable rental homes for low-income households?

A.2. The United States needs a comprehensive approach to its housing policy. Treasury stands ready to work with Congress on reform that supports the vital role housing plays in the financial security of American families and the broader U.S. economy.

Q.3. The Countering America's Adversaries Through Sanctions Act (CAATSA) requires the President to work with the State Department, Treasury and ODNI. While the President has threatened to withdraw from the JCPOA and has issued a limited number of new sanctions, you have yet to present this mandated comprehensive regional strategy.

When can we expect to see that?

A.3. We refer you to the Department of State, which is responsible for this report, pursuant to Section 103 of CAATSA.

Q.4. Earlier this month, United Nations Officials again expressed concern that Iran may be violating an arms embargo by continuing

to supply weapons to Hezbollah and by providing missiles and drones to actors in Yemen. CAATSA provided expanded authorities to designate entities supporting the import and export of arms to and from Iran.

When can we expect the Administration to fully implement and utilize the provisions of this law to counter Iran's continuing activity throughout the region, including its support for terrorism and arms trafficking?

A.4. This Administration takes the threat posed by Iran very seriously. We have aggressively targeted the full range of Iranian malign activities under all of our Iran-related sanctions authorities and will continue to do so in response to the Iranian regime and the Islamic Revolutionary Guard Corps's (IRGC) destabilizing activity in Syria, support to the murderous regime of President Bashar al-Assad, and provision of funding to proxies, including the Houthis and Hezbollah. As of the date of this hearing, Treasury has issued 10 tranches of sanctions, designating 97 individuals and entities in the Middle East, Asia, and Europe in connection with the IRGC and Iran's support for terrorism, ballistic missile programs, cyberattacks, transnational criminal activity, censorship, and human rights abuses. Additionally, Treasury has actively implemented the Countering America's Adversaries Through Sanctions Act (CAATSA). For example, on October 13, 2017, consistent with Section 105 of CAATSA, Treasury's Office of Foreign Assets Control (OFAC) put additional pressure on the IRGC by designating the IRGC pursuant to Executive Order (E.O.) 13224, our counterterrorism authority, for providing material support to the IRGC-Qods Force (IRGC-QF). OFAC took further action against the IRGC on October 31, 2017, by amending the Global Terrorism Sanctions Regulations (GTSR), 31 CFR part 594, to apply the blocking provisions of the GTSR to 41 foreign persons that have been identified by OFAC as officials, agents, or affiliates of the IRGC. Treasury presses key allies and partners at every opportunity to take concrete action, whether jointly with the United States or independently, to address Iran's malign activities. Treasury is engaged in ongoing, productive discussions to advance partner action. As you know, CAATSA Section 107 requires the President to impose sanctions on persons he determines are knowingly engaged in certain activities related to the supply, sale, or transfer of enumerated arms and related material to or from Iran, among other things. The President delegated primary responsibility for making the determination described in Section 107(a) of CAATSA to the Secretary of State, so we defer to our State Department colleagues on specific questions related to that provision.

Q.5. We understand that the State Department has eliminated the Office of Coordinator for Sanctions Policy, despite sanctions being one of the most effective diplomatic tools we have.

How has the Treasury Department responded to this organizational shift?

A.5. The Treasury Department develops targeted economic sanctions through a rigorous process in conjunction with a range of interagency partners, including the State Department. Prior to taking action, we work closely with the State Department and others

to ensure that our sanctions are consistent with our national security objectives and complement other U.S. Government activities. We continue to have a strong working relationship with a number of offices within the State Department that relate to our actions and authorities.

Q.6. Have you ramped up your efforts to ensure sanctions coordination and effectiveness?

A.6. The Treasury Department is continually working to ensure that our targeted economic sanctions are highly effective and implemented in conjunction with other agencies' actions, including diplomatic efforts by the State Department. We develop and administer sanctions in close coordination with a range of interagency partners, including the intelligence community and law enforcement partners. We constantly calibrate our authorities and assess their effects to achieve maximum impact, and sanctions are part of an interagency strategy that includes our other economic authorities, diplomacy, intelligence, law enforcement, and our other elements of national power.

Q.7. How many new employees has the Department hired in the Office of Foreign Asset Control?

A.7. Since the beginning of fiscal year 2017, OFAC has hired and on-boarded 55 new employees, and has an additional 9 selections currently in the on-boarding process. OFAC is continually recruiting and hiring employees to ensure that it is appropriately staffed to support all of our country's foreign policy and national security challenges. As part of a resource increase described below, Treasury is planning on giving OFAC new resources.

Q.8. What are the current staffing levels of the Terrorism and Financial Intelligence Office? We've heard concerning reports about a sharp decline in staffing for critical positions. Can you provide information on staffing levels for TFI and OFAC over the past 2 years?

A.8. TFI's work is vital to our national security and its work is of increasing importance and breadth. There has been an increase—not a decline—in staff for TFI positions. In addition, we requested additional resources in both FY2018 and FY2019 budgets, a clear recognition of the great value this Administration places on TFI's tools. TFI is continually recruiting and hiring employees to ensure that we have the knowledge, skills, and expertise to address our country's most critical national security challenges. In the last 2 years, the staffing levels for TFI and OFAC have gradually increased. As reported in the Fiscal Year 2019 Budget in Brief, staffing levels for TFI, to include FinCEN, stood at 669 direct FTE for fiscal year 2017. This number increased to 725 for fiscal year 2018, which does not account for the significant increase in personnel due to the additional funding for TFI that was included in the FY2018 Omnibus Appropriations bill signed by President Trump. OFAC has similarly increased staffing levels. At the end of FY2017, OFAC had 187 employees on-board. As of early 2018, OFAC had 202 employees on-board.

Q.9. The Administration is celebrating the passage of a tax overhaul specifically crafted to provide massive breaks to the biggest

banks and largest corporations. All along, the Administration claimed that the benefits would trickle down to the people that need it most—those who haven't seen a raise in a decade and those who work multiple jobs just to get three meals a day on the table.

Can you explain how undermining the Community Reinvestment Act, which requires banks to make loans to creditworthy borrowers in low- and moderate income communities, helps achieve the Administration's stated intent to reach those who need it most?

A.9. Treasury has no intentions of undermining CRA. Treasury's policy teams have been engaging with a wide range of stakeholders to study CRA and assess potential improvements to the administration of CRA. As of April 3, 2018, we shared our findings with the regulators responsible for CRA administration.

Q.10. I sent a letter to you a few weeks ago regarding Venezuela's stated interest in developing a cryptocurrency for the explicit purpose of evading U.S. sanctions. Shortly thereafter, Treasury warned that U.S. investors in the cryptocurrency would be subject to sanctions risk.

A.10. Setting aside the technical hurdles that may inhibit or delay the launch of Venezuela's cryptocurrency, can you give us a sense of what tools and enforcement mechanisms Treasury can use to track the development of cryptocurrencies by adversarial countries like Venezuela and Russia?

We are taking action to mitigate potential sanctions evasion risks associated with the petro, other sovereign digital currencies, and virtual digital currencies (digital currencies that are not issued or guaranteed by any jurisdiction and are not legal tender in the jurisdiction of issuance (i.e., non-fiat)).

On March 19, 2018, President Trump issued Executive Order 13827, which prohibits, as of such date, all transactions related to, provision of financing for, and other dealings in, by a United States person or within the United States, any digital currency, digital coin, or digital token, issued by, for, or on behalf of the Government of Venezuela on or after January 9, 2018, including the petro. The prohibition in E.O. 13827 is not limited to the petro; it also covers dealings in any other "digital currency, digital coin, or digital token" the Government of Venezuela may issue going forward. This scope prevents the regime from evading the E.O. by merely changing the name of the digital currency or coming out with alternate digital currencies, digital coins, or digital tokens. Treasury continues to monitor Venezuela's efforts to develop its own sovereign digital currency closely, and stands ready to respond further to any attempts to circumvent U.S. sanctions.

We also remain focused on efforts by Venezuela, Russia, and North Korea to exploit other digital currencies to circumvent U.S. sanctions. Under our existing sanctions authorities, persons subject to U.S. jurisdiction, including entities that process transactions using sovereign digital currencies or virtual currencies, are responsible for ensuring that they do not engage in transactions prohibited by sanctions administered by the Office of Foreign Assets Control (OFAC). OFAC compliance obligations apply, regardless of the currency in which a transaction is denominated, and OFAC will not hesitate to take action against persons that violate these prohibi-

tions. To further underscore this point to the compliance community and general public, on March 19, 2018, OFAC issued several digital currency-related Frequently Asked Questions (FAQs) that provide guidance on the application of U.S. targeted financial sanctions in the digital currency space.

Treasury has effective investigatory and enforcement mechanisms to follow and counter the illicit use of virtual currencies for sanctionable conduct, as well as for money laundering, terrorist financing, and other nefarious purposes. As the administrator of the Bank Secrecy Act, Treasury's Financial Crimes Enforcement Network (FinCEN) requires money transmitters operating in convertible virtual currencies, including convertible virtual currency exchangers and administrators, to register with FinCEN, have anti-money laundering/counter financing of terrorism (AML/CFT) programs, identify customers above certain transactional thresholds, and file reports on suspicious transactions that assist law enforcement investigations. The Internal Revenue Service, under authority delegated by FinCEN, examines virtual currency money transmitters for AML/CFT compliance. In addition, FinCEN has used its civil enforcement authorities against virtual currency businesses that fail to comply with their AML/CFT obligations. Last summer, for example, in partnership with the Department of Justice, FinCEN took enforcement action against BTC-e, an internet-based, foreign-located virtual currency exchanger, for willful violation of AML/CFT laws. FinCEN assessed a \$110 million civil money penalty against BTC-e and a \$12 million penalty against Russian national Alexander Vinnik, one of BTC-e's operators. Treasury is also actively engaged in U.S. Government efforts to identify and combat illicit cyberactivity, which often involves the abuse of virtual currency, including in the case of North Korea. Our efforts include support to domestic and international law enforcement investigations, outreach to foreign partners, the development of sanctions, and enforcement actions. We are prepared to bring all of these tools and authorities to bear to address national security and other illicit financing threats associated with the development of digital currencies by adversarial countries.

Q.11. In January Turkish banker Mehmet Hakan Atilla was found guilty in a Federal court room for his involvement in perhaps the largest ever sanctions evasion scheme which resulted in tens of billions in dollars and gold being moved from Turkey to Iran. President Obama signed the Iran Freedom and Counter-Proliferation Act (IFCPA) in January 2013. The law closed the gold loophole so that Turkey could no longer export gold to Tehran. Tehran reportedly sought to keep the loophole open so that it could import as much gold as possible at a time when the U.S. and its allies were seeking to enforce financial sanctions on Iran.

Was there a request to delay implementation of provisions that could have benefitted Iran's importation of gold?

A.11. The Department of the Treasury did not, to the best of our knowledge, receive a request from Turkey to delay the implementation or enforcement of the gold provisions of the Iran Freedom and Counter-Proliferation Act of 2012 (IFCA). As discussed below,

though IFCA was signed into law in January 2013, the gold provisions of IFCA did not take effect until July of that year.

Q.12. When was the law implemented and how?

A.12. IFCA was signed into law on January 2, 2013, as part of the National Defense Authorization Act for Fiscal Year 2013. Most of the provisions in IFCA, including Section 1245 (relating to the imposition of sanctions with respect to the sale, supply, or transfer of certain materials, including precious metals, to or from Iran), took effect 180 days after enactment, which was July 1, 2013. On June 3, 2013, the President issued Executive Order 13645 which, among other things, implemented certain provisions of IFCA, including Section 1245. The effective date of E.O. 13645 was July 1, 2013. On June 3, 2013, OFAC also issued guidance in the form of a series of FAQs, including on the implementation of Section 1245 of IFCA. The guidance served to clarify to the compliance community, including foreign financial institutions, what would be sanctionable under IFCA beginning on July 1, 2013. Furthermore, Senior Treasury officials emphasized in their engagements with Turkish and other officials, as well as foreign banks and companies, that gold trade with Iran was sanctionable and that these measures would be strictly enforced.

On January 20, 2014, as part of the Joint Plan of Action (the precursor to the Joint Comprehensive Plan of Action (JCPOA)), and pursuant to Section 1245(g) of IFCA, the Secretary of State waived the application of sanctions on the sale, supply, or transfer to or from Iran of gold and other precious metals by non-U.S. persons not otherwise subject to the Iranian Transaction and Sanctions Regulations, provided that the transactions did not involve (i) persons on the Treasury Department's Office of Foreign Assets Control's (OFAC) List of Specially Designated Nationals and Blocked Persons (SDN List) other than persons listed solely for meeting the definition of the Government of Iran or an Iranian financial institution, and (ii) funds drawn from certain restricted accounts. Since January 16, 2016 (Implementation Day of the JCPOA), the United States has waived sanctions on transactions by non-U.S. persons for the sale, supply, or transfer to or from Iran of gold and other precious metals pursuant to Section 1245(g) of IFCA, in exchange for Iran's implementation of nuclear-related commitments under the JCPOA.

Q.13. What is the status of our negotiations with Halkbank and the Turkish Government about any penalties to Halkbank?

A.13. We cannot comment on the existence or status of any potential or ongoing enforcement actions. We take very seriously, however, any activity that might violate or undermine the integrity of our sanctions programs. OFAC, the office which administers and enforces the sanctions programs for the Treasury Department, maintains a practice of actively following up on leads and ensuring that appropriate enforcement action is taken in response to any apparent violations of our sanctions programs.

Q.14. What is the likelihood that President Erdogan or other senior Turkish officials will face a penalty?

A.14. Again, we cannot comment on the existence or status of any potential or ongoing enforcement actions. We take very seriously, however, any activity that might violate or undermine the integrity of our sanctions programs. OFAC, the office which administers and enforces the sanctions programs for the Treasury Department, maintains a practice of actively following up on leads and ensuring that appropriate enforcement action is taken in response to any apparent violations of our sanctions programs.

**RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNER
FROM STEVEN T. MNUCHIN**

Q.1. *Intel Document Request*—As you are aware, the Senate Select Committee on Intelligence is conducting an inquiry into Russian interference in the 2016 U.S. election. In that capacity, Chairman Burr and I sent you a request for documents on August 11th of last year. That is almost 6 months ago. Having received no response, the Chairman and I followed up on December 7th of last year. But still, we are waiting on the documents.

Will Treasury cooperate with the Intelligence Committee's inquiry?

When, exactly, should we expect the documents from our August 11th and December 7th requests?

What is the cause for the delay?

Will you commit to getting the Intelligence Committee all requested documents by the end of February?

A.1. As you know, the Department of the Treasury has cooperated and will continue to cooperate with the Senate Select Committee on Intelligence's (SSCI) inquiry. Treasury has provided documents responsive to SSCI's requests of both August 11 and December 7. Treasury maintains regular contact with SSCI staff and will continue to keep SSCI updated.

Q.2. *Cybersecurity*—In its semiannual report, the Office of the Comptroller of the Currency noted that concentration in third-party service providers, such as providers of enterprise software or security products and services, can increase cybersecurity risk. The cybersupply chain risk—and particularly of so-called software “monoculture”—was vividly illustrated in June 2017, when a major global cyberattack was able to spread across Ukraine (and then globally) via compromise of a piece of accounting software used by virtually all Ukrainian firms.

What role does FSOC, or other financial regulators, have in addressing supply chain risk in the financial services sector?

A.2. Treasury works with the financial services sector to understand and manage risks associated with the supply chain. As neither Treasury nor FSOC is a regulatory agency, we work in a voluntary fashion with financial institutions and regulators to encourage the implementation of best practices and industry standards.

Q.3. Do you have concerns related to the sector's dependence on a particular vendor's product or service?

A.3. Treasury, in our role as sector-specific agency, is constantly examining with our agency and regulatory partners ways to mitigate the risk that the financial services sector naturally carries.

Q.4. The report also says that financial regulators should “establish a harmonized risk-based approach utilizing” the National Institute of Standards and Technology (NIST) Framework for Improving Critical Infrastructure Cybersecurity (Framework), “which can be leveraged to assess cybersecurity and resilience at the firms they regulate.”

Do you believe that financial regulators today are fully assessing the cybersecurity and resilience at the firms they regulate?

A.4. There are over 97,000 known vulnerabilities in the National Vulnerability Database at the National Institute of Standards and Technology (NIST). With specific regard to the unique circumstances of the financial services sector, this is an on-going challenge for the regulators.

Q.5. What metrics and tools are they relying on to evaluate these risks?

A.5. As Treasury is not a regulator, we do not have knowledge of specific weaknesses of specific institutions regarding cybersecurity that may have been identified through the course of regulatory examinations.

Q.6. What more needs to be done in this area?

A.6. As Treasury is not a regulator, we do not have knowledge of specific weaknesses of specific institutions regarding cybersecurity that may have been identified through the course of regulatory or other examinations.

Q.7. The recent FSOC report devotes significant attention to information sharing among private sector firms and the Government. Information sharing is, inarguably, a priority. At the same time, firms and even Government entities vary in their ability to effectively process, and operationalize, shared threat information.

What steps are you taking to ensure that, particularly for smaller financial institutions, threat information can be effectively digested and operationalized so that these firms can evaluate risk in real time and take appropriate remedial steps?

A.7. As Treasury is not a regulator, we do not have knowledge of specific weaknesses that of specific institutions regarding cybersecurity that may have been identified through the course of regulatory or other examinations.

Q.8. *Cryptocurrency*—Given the many varied Federal interests that cryptocurrencies implicate—consumer protection, preservation of the dollar as the world’s reserve currency, adequate anti-money laundering and counterterrorism protections—is there a single Federal regulator that is well positioned to analyze the risks and benefits of cryptocurrencies?

Is the FSOC the best forum for analyzing the issue?

Has FSOC analyzed this issue?

A.8. Recent developments related to crypto-assets have raised policy issues that implicate the jurisdiction of various Federal regulators and agencies, including numerous FSOC member agencies. It is therefore important that the Federal Government work to address the various policy issues raised by crypto-assets in a coordinated manner.

Treasury, including through its leadership of the FSOC, is taking a leading role in coordinating among Federal agencies in order to promote our overall mission of maintaining a strong economy and our role in formulating and implementing fiscal and tax policy and combatting illicit finance.

Q.9. Apart from the regulation of cryptocurrency exchanges and markets, should the Federal Government take a look at whether there should be limitations on the features or governance of cryptocurrencies? Which agency is best positioned to perform that analysis?

A.9. Treasury is working with numerous Federal regulatory agencies to assess, monitor, and respond to potential risks that crypto-assets could pose. We will continue those efforts, including our collaboration with the regulators with jurisdiction over aspects of these markets.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR VAN HOLLEN FROM STEVEN T. MNUCHIN**

Q.1. Mr. Secretary, during the hearing you stated that you had “no reason to doubt” that the average household making more than \$1 million per year gets a substantial tax cut from the recently enacted tax law, despite your earlier commitment that there would be “no absolute tax cut for the upper class.” According to the Joint Committee on Taxation, which provides nonpartisan tax analysis to Congress, the bill provides a total tax cut of \$36.853 billion to the 572,000 household with incomes above \$1,000,000 in 2019, which translates to a windfall of more than \$64,000 per household (JCX-68-17). Your answer implied that the Department of the Treasury has conducted analysis that reached a similar conclusion, based on your reference to “our numbers.”

Has the Department of the Treasury conducted a distributional analysis that calculates the average tax change for households in different income groups, and the number of households in each income group with tax increases or tax cuts? If so, please provide that analysis.

A.1. According to the Joint Committee on Taxation, the share of Federal taxes paid by the Nation’s top-income families will increase. I refer you to that analysis.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM STEVEN T. MNUCHIN**

Q.1. In the past, the nonprofit responsible for administering Hardest Hit Funds in Nevada, the Nevada Affordable Housing Assistance Corporation (NAHAC), has had difficulty administering funds to Nevada families in need due to programmatic failures, and wasteful spending. Now under new leadership, NAHAC has taken steps to ensure that Nevada’s allocation is getting out the door to homeowners seeking relief.

One of those steps has included submitting a number of policy proposals, which were recently approved by Treasury. These changes include programmatic adjustments to income limits, unemployment mortgage assistance, mortgage reinstatement and prin-

principal reduction programs. NAHAC will also be implementing a proposal to partner with the Nevada Housing Division to create a downpayment assistance program.

Does the Treasury Department intend to provide technical assistance to NAHAC in implementing these programs, particularly the downpayment assistance program?

A.1. Treasury's Office of Financial Stability (OFS) has provided technical assistance to NAHAC with respect to the implementation of existing programs and in the development of any future programs such as a downpayment assistance program. OFS has also provided opportunities for NAHAC to discuss development and implementation of existing and future programs with other Hardest Hit Fund States through summits and regular conference calls. Treasury will follow its existing process to review submissions for HHF program changes in order to determine adherence to the requirements that all HHF programs are designed to prevent avoidable foreclosures and stabilize housing markets.

Q.2. As you know, the Treasury Department's Office of Minority and Women Inclusion was established by Wall Street Reform, and is responsible for all matters regarding diversity in management, employment and business activities.

Please tell me the dates that you met with the head of the Office of Minority and Women Inclusion.

A.2. I had the opportunity to meet with Dr. Lorraine Cole, who heads OMWI for Treasury Departmental Offices, three times so far in 2018. On February 1, she joined me in a meeting on the topic of urban revitalization arranged in collaboration with the White House. On February 13, she participated in an event that I hosted with about 30 African American business people in recognition of Black History Month. On March 6, she provided a briefing to me on the status of business diversity, workforce diversity, and workplace inclusion within Treasury Departmental Offices. In addition, I host a monthly meeting with myself and Dr. Lorraine Cole.

Q.3. How many women work in Senior Leadership at the Treasury Department? It looks like of 22 senior positions, only three are held by women. Is that correct?

A.3. The Treasurer of the United States is female, as is one of the Department's three undersecretaries. A Deputy General Counsel and numerous Deputy Assistant Secretaries and Senior Advisors across the Department are also female.

Isabel Patelunas, the nominee to be Assistant Secretary for Intelligence and Analysis, is still awaiting confirmation by Senate despite being approved by the Senate Intelligence Committee on July 25, 2017. I again encourage the Senate to swiftly approve her nomination. Isabel's nearly 30 years of experience in the intelligence community will be a great asset to the Department.

More broadly, women make up 28 percent of the career senior executive positions in the Treasury Departmental Offices.

Q.4. How many Latinos? African Americans? Native Americans? Asian Pacific Americans?

A.4. Among the Presidentially Appointed positions, we have one Latina, the Treasurer of the United States.

Q.5. When will Treasury update its required Minority and Women Inclusion report? The most recent report seems to be from 2014.

A.5. Treasury provided updated Office of Minority and Women Inclusion reports in March 2018.

Q.6. In your first year as Secretary of Treasury, the Treasury Department has published many reports on your plans to weaken safety and soundness rules for big banks, Wall Street investment firms, and corporations that want to send jobs overseas but when it comes to working families, you've issued no reports to help families who struggle to pay the ever-rising rent. While I'm relieved that the Low Income Housing Tax Credit and Private Activity Bonds remain—they support 90 percent of all affordable housing built in our Nation—their value has gone down. Some say this could result in 200,000 fewer affordable units built in the next decade.

Will the President's proposed infrastructure bill include funding to invest in our affordable housing infrastructure—repair broken elevators, upgrade roofs and windows, etc.? Even before the hurricanes and floods, there was a backlog of \$26 billion worth of repairs needed to public housing.

A.6. The President's recent infrastructure outline is a comprehensive framework that addresses more than just traditional infrastructure and aims to promote investment across American communities. We look forward to working with Congress to enact infrastructure legislation.

Q.7. When will Treasury and HUD begin publishing the monthly Housing Scorecard again? There hasn't been one reissued in nearly 2 years.

A.7. Treasury continues to produce an internal Scorecard that aggregates metrics that reflect the state of the United States housing market.

Q.8. I appreciate your repeated urging for Congress to avoid a catastrophic default.

Can you lay out the harms that would come to families, our Nation's economy and our international reputation if the U.S. defaulted on our national debt?

A.8. Failing to honor our outstanding debt could result in further downgrades to our credit rating, and increased borrowing costs that would ultimately be borne by the American taxpayer for years to come. It could also cause serious disruption to the American economy, and potentially lead to another recession. Interest rates could increase not only for the U.S. Government, but for all Americans who borrow money, including homeowners, students, and businesses attempting to grow.

Q.9. I'm disappointed that the Treasury Department killed the myRA program. Half of workers do not have access to a retirement account at work. The national savings rate is going down.

Please share with me how the Treasury Department calculated the cost of the program?

A.9. The Treasury Department previously calculated the cost of the myRA program by aggregating its actual expenses for FY14, FY15,

FY16, and an estimate for FY17. The updated actual cost of the program through FY17 was \$72.5 million. In particular, the cost of the program reflects the infrastructure costs associated with account hosting, such as the implementation of web sites and provision of customer service. It also reflects costs for research and promotion, including the development of messaging materials for employers and individuals, efforts to get word out about the program, and surveys of potential and actual customers. Finally, the total also reflects the cost of Federal employees who oversee the program.

Q.10. How much was spent on research and promotion for the myRA program? How was that money allocated?

A.10. The myRA program spent approximately \$24.8 million on research and promotion, including costs for the development of campaign materials, for outreach to employers and influencer organizations, and for other market research.

Q.11. How many staff were allocated the program? What was their median salaries?

A.11. The number of staff on the program has varied over time. At peak staffing, the program had 17 employees and a median salary of approximately \$112,000.

Q.12. How were you spending funds on account hosting when all you were doing was providing workers with access to a product that resembled the TSP's G-fund account?

A.12. myRA gave workers access to retirement savings bonds offered within Roth IRA accounts. Providing the Roth IRA accounts required an account hosting infrastructure. This infrastructure included the myRA.gov landing site, an account enrollment site, and an account access site. It included IT support and a customer service center. It also included back office support staff to mail documents to account owners, comply with tax laws, and mitigate the risks of fraud.

Q.13. How much did you spend on account hosting before any investments arrived?

A.13. By the time the first investments arrived in December 2014, the myRA program had paid \$8 million for setting up infrastructure related to account hosting.

Q.14. Increased funding for the IRS would reverse the short-sighted and damaging budget cuts which have increased our national debt, left the IRS ill-equipped to combat refund errors and fraud, drastically reduced taxpayer services, dangerously reduced audits, and limits the IRS's ability to implement new laws passed by Congress.¹ Last year's Trump budget proposal only provided \$11 billion, a \$239 million cut from already inadequate 2017 levels.²

What will you do to ensure that the IRS receives adequate resources to fight identity theft, respond to questions, expedite business incorporations, etc.?

¹ https://www.washingtonpost.com/news/powerpost/wp/2017/03/30/democrats-call-for-larg-est-irs-budget-to-improve-service-as-trump-calls-for-cuts/?utm_term=.4110e035aa96

² <https://www.cbpp.org/research/federal-budget/trump-budget-continues-multi-year-assault-on-irs-funding-despite-mnuchins>

A.14. Funding for the IRS is a priority for the Department. In 2018 we worked with Congress to ensure that the IRS had sufficient funding to implement the tax reform law, including funding to answer taxpayer questions, as well as base funding to provide taxpayer service and continue our enforcement efforts. The 2019 Budget proposes \$11.1 billion in base funding for the IRS including \$2.2 billion for taxpayer services salaries and expenses, \$4.6 billion for enforcement salaries and expenses, \$4.2 billion for running key tax filing and compliance IT applications, and \$110 million for IT modernization.

Furthermore, the Budget proposes a program integrity cap increase of \$362 million in 2019 to expand audit coverage and protections against identity theft and improper payments. We are committed to monitoring the IRS's performance and working with Congress to identify appropriate funding levels in the future.

Q.15. In 2016, the Department of Justice settled a case against OneWest's subsidiary Financial Freedom, which sold reverse mortgages to senior citizens.³ The settlement totaled eighty-nine million dollars (\$89 million) and related to Financial Freedom defrauding taxpayers by submitting false insurance claims to HUD. I have data suggesting that Financial Freedom foreclosed on one-hundred and eighty-one (181) Nevada seniors during your tenure.

The House bill to gut Wall Street Reform (H.R. 10) would severely restrict subpoena authority and other enforcement tools used by DOJ under the statute they used to bring this case.

Do you support rolling-back the law that the Justice Department used to sue your old bank for fraudulent foreclosures against seniors?⁴

A.15. The Department of Justice should have all appropriate tools it needs to effectively enforce the law. Regarding the House bill, I would refer you to the Department of Justice.

Q.16. Moving forward, what do you plan to do to protect seniors from predatory financial products?

A.16. I agree that it is important to protect seniors from predatory financial products. Agencies with enforcement authority, including the Department of Justice, should use their authority to protect seniors from any unlawful activity. Where the Treasury Department can assist law enforcement in those efforts, we are fully committed to doing so.

Q.17. Background: In S. 2155, Section 402 changes the supplementary leverage ratio, and allows banks to exempt funds from

³ <https://www.justice.gov/opa/pr/financial-freedom-settles-alleged-liability-servicing-federally-insured-reverse-mortgage>

⁴ Namely, Section 512 of H.R. 10 seeks to narrow the scope of the DOJ's subpoena power by requiring a court order or a personally signed subpoena from the Attorney General or Deputy General instead of the current practice of allowing any investigating attorney from any U.S. Attorney's Office in the country to issue a subpoena.

Also, the Section amends the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) by providing that actionable cases may only be brought when there is fraud "against a federally insured financial institution or by a federally insured financial institution against an unaffiliated third person" rather than "affecting a federally insured financial institution." The practical impact of this would be to eliminate liability for acts committed by financial institutions and instead only allow for liability in cases when a person violates Federal law against a financial institution or when a financial institution commits misconduct against "an unaffiliated third person"—a term that the proposal does not define and that leaves open to question the DOJ's ability to use FIRREA in the manner that it has to date.

custodial banks when calculating the amount of capital needed to offset risk. While some argue that funds from custodial banks are safer, custody banks have had compliance problems. For example, in September 2017, State Street paid more than \$35 million to settle charges that it overcharged customers, generating approximately \$20 million in improper revenue for the bank.⁵

Secretary Mnuchin, as I'm sure you know, one of the reasons the financial crisis was so devastating was because many banks kept toxic assets off their balance sheet, and as a result, held less capital than needed when these assets started to fail.

Section 402 of S. 2155 changes the supplementary leverage ratio to allow banks to hold custodial bank funds off the balance sheet when calculating how much capital is needed to offset risk. But even custodial banks have had compliance and fraud problems—just last September, State Street was fined \$35 million for fraudulently charging customers.

Do you believe that allowing banks to move funds deposited by custodial banks off balance sheets could cause banks to hold less capital and leave themselves open to risks posed by custodial banks?

A.17. The leverage ratio is an important feature of improving the safety and soundness of the U.S. regulatory capital regime for banking organizations. However, deposits held at central banks that are the result of custody activities are fundamentally low risk asset exposures that are not the type of risky leveraged activities that the leverage ratio was designed to constrain. Moreover, a regulatory capital regime that makes the leverage ratio the primary binding capital constraint on firms could have the unintended outcome of actually encouraging additional risk-taking by banking organizations.

Q.18. *Follow up:* Isn't allowing banks to hold less capital part of what contributed to the failure of some Wall Street banks and made the financial crisis much worse? Why should we allow weaker financial cushions for financial institutions that have already shown they cannot adequately assess the risk on their own balance sheets?

A.18. The aim of policy is to make leverage ratio requirements a backstop to the risk-based capital regime, which we think results in a better overall set of incentives for firms. Moreover, we think the Fed maintains its full authority to set overall capital levels and has the authority to adjust leverage ratio requirements to take into account any change in the treatment of deposits held at central banks.

Q.19. In November 2017, Treasury issued a report regarding goals that FSOC should achieve. Suggestions included changes to the designation process, and focusing on an “activities-based approach.”

During the financial crisis, regulators were unaware that credit default swaps, the very instrument that tanked the financial markets, were risky to markets until it was too late.

⁵The Securities and Exchange Commission. “State Street Paying Penalties to Settle Fraud Charges and Disclosure Failures”. The Securities and Exchange Commission. September 7, 2017. Available at: <https://www.sec.gov/news/press-release/2017-159>.

If FSOC moves from a simple threshold to a more complex analysis, how do you think regulators at the Federal and State level will be able to adequately catch risky products before they cause significant damage to the economy?

A.19. Members of the Financial Stability Oversight Council are considering the recommendations made in Treasury's November 17, 2017, report on FSOC designations, and I look forward to working with them to determine how best to implement the recommendations.

Q.20. It's being reported today that MetLife found weakness in its internal controls. Supposedly, these weaknesses are making MetLife delay the release of its Q4 financial report.

Did you know about the problems with MetLife's internal financial reporting when you urged FSOC to drop the lawsuit designating MetLife as a Significantly Important Financial Institution?

A.20. As I stated in January, I am pleased that the Justice Department settled the MetLife case, consistent with the recommendation by a majority of FSOC voting members. Treasury has recommended specific reforms to make its nonbank financial company designation process more analytically rigorous, clear, and transparent. As Chairman of FSOC, I will be working with the Council to clarify and revise its nonbank designation rule and interpretive guidance.

Q.21. As you are aware, cannabis and cannabis related businesses, including landlords and companies providing security services, face challenges when accessing financial services from State- or federally chartered financial institutions. As a former Attorney General, I am concerned about money laundering and other crimes in an industry that generates hundreds of millions of dollars in revenue, but is forced to operate on a cash-only basis and without access to financial services. Currently, financial institutions are operating under guidance issued by Treasury's Financial Crimes Enforcement Network (FinCEN) that gives such institutions regulatory certainty when they provide financial services to cannabis related businesses. This guidance has made State-legal cannabis operations safer and more secure while allowing the industry to continue to provide medicine to patients and millions of tax dollars to State governments. Thus, I am greatly concerned by your testimony in a recent hearing before the House Financial Services Committee that FinCEN's guidance was being reviewed.

During any review of the current FinCEN guidance, will Treasury commit to taking into account the greater risk of money laundering and other crimes when State-legal cannabis businesses are forced to operate on a cash-only basis or otherwise denied financial services?

A.21. The review of the current FinCEN guidance is being conducted consistent with FinCEN's mission to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities. We will continue to consult with the Department of Justice to ensure that law enforcement-related issues are addressed.

Q.22. During any review of the current FinCEN guidance, will Treasury collaborate with other Federal financial regulators to issue a joint guidance governing how financial institutions can effectively serve marijuana-related businesses?

A.22. Since the 2014 guidance was issued, FinCEN has continued discussions with both the public and private sectors involved with State-authorized marijuana-related businesses, including the relevant financial communities, as well as State and Federal regulators and authorities. We continue to consider the feedback we have received. We will continue to consult with the Department of Justice and the appropriate Federal prudential regulators and other stakeholders regarding this issue. We will continue to consult with the Department of Justice to ensure that law enforcement-related issues are addressed.

Q.23. During any review of the current FinCEN guidance, will Treasury commit to working with State governments to ensure that States allowing adult and medicinal use of cannabis are represented during the process?

A.23. FinCEN works to provide as much certainty as possible with respect to how financial institutions must comply with FinCEN's regulations consistent with the purposes of the BSA. Since the 2014 guidance was issued, FinCEN has continued discussions with both the public and private sectors involved with State-authorized marijuana-related businesses, including the relevant financial communities, as well as State and Federal regulators and authorities. We continue to consider the feedback we have received. We will continue to consult with the Department of Justice and the appropriate Federal prudential regulators and other stakeholders regarding this issue.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD
**LETTER SUBMITTED BY ANDREW M. SCHAUFELE, DIRECTOR, BUREAU
OF REVENUE ESTIMATES**



Peter Franchot
Comptroller

Andrew M. Schaufele
*Director, Bureau of Revenue
Estimates*

February 5, 2018

The Honorable Chris Van Hollen
110 Hart Senate Office Building
Washington, DC 20510

Dear Senator Van Hollen:

I am writing this letter as clarification for the record to the U.S. Senate Committee on Banking, Housing and Urban Affairs as it pertains to a recent reference that was made to an analysis my office compiled for the State of Maryland regarding the effects of Federal Tax Law Revisions on the State of Maryland. On Tuesday, January 30, 2018, a question was raised during the committee hearing with Treasury Secretary Steven Mnuchin, during which you cited our report. The question asked was whether or not the repeal of the Affordable Care Act (ACA) individual mandate was one of the reasons that some individuals in the analysis were seeing tax increases due to their inability to no longer claim ACA premium tax credits. The Bureau of Revenue Estimates, the division which conducted the analysis of the Federal Tax Plan, was not able to include the number of individuals claiming the ACA premium tax credit in the analysis.

To date, the Internal Revenue Service (IRS) has not shared the individual level mandate payments with the Office of the Comptroller. Prior tax year information from the IRS has the aggregate information, but again, our report does not include any impact from the mandate repeal. Rather, the taxpayers in the \$25,000 to \$50,000 brackets that would see an increase in federal tax were most likely to have itemized deductions that would now be reduced (e.g., lost miscellaneous deductions) and to have either no dependents or dependents over the qualifying age for the child tax credit (i.e., they lose the exemption and don't pick up an offset from the enhanced child tax credit).

My staff and I stand ready to answer any additional questions that you might have, provide clarification on any responses that have already been provided, or provide any other assistance that you might need.

Sincerely,

Andrew Schaufele

**DEPARTMENT OF THE TREASURY 2017–2018 PRIORITY GUIDANCE
PLAN, JOINT STATEMENT**



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 20, 2017
Department of the Treasury
2017-2018 Priority Guidance Plan

Joint Statement by:

David J. Kautter
Assistant Secretary for Tax Policy
U.S. Department of the Treasury

John A. Koskinen
Commissioner
Internal Revenue Service

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Internal Revenue Service

We are pleased to announce the release of the 2017-2018 Priority Guidance Plan. As described below, the 2017-2018 Priority Guidance Plan sets forth guidance priorities for the Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) based on public input, and taking into account the burden-reducing policies and reforms described in Section 1 of Executive Order 13789 (April 21, 2017; 82 FR 19317) and Executive Order 13777 (February 24, 2017; 82 FR 9339).

The 2017-2018 Priority Guidance Plan contains guidance projects that we hope to complete during the twelve-month period from July 1, 2017, through June 30, 2018 (the plan year). Part 1 of the plan focuses on the eight regulations from 2016 that were identified pursuant to Executive Order 13789 and our intended actions with respect to those regulations. Part 2 of the plan describes certain projects that we have identified as burden reducing and that we believe can be completed in the 8 ½ months remaining in the plan year. As in the past, we intend to update the plan on a quarterly basis, and additional burden reduction projects may be added. Part 3 of the plan describes the various projects that comprise our implementation of the new statutory partnership audit regime, which has been a topic of significant concern and focus as the statutory rules go into effect on January 1, 2018. Part 4 of the plan, in line with past years' plans and our long-standing commitment to transparency in the process, describes specific projects by subject area that will be the focus of the balance of our efforts this plan year. Many of these projects are included on the plan in response to specific requests for

guidance from interested stakeholders. In addition, many of these projects afford burden reduction by providing taxpayers and their advisers with clarity as to the application of the tax law so that businesses and individuals can significantly reduce the time needed to plan their affairs with certainty as to their tax consequences. Finally, most of these projects do not involve the issuance of new regulations. Rather, they will provide helpful guidance to taxpayers on a variety of tax issues important to individuals and businesses in the form of: (1) revocations of final, temporary, or proposed regulations; (2) notices, revenue rulings, and revenue procedures; and (3) simplifying and burden reducing amendments to existing regulations.

As in past years, we solicited comments from taxpayers to develop our Priority Guidance Plan, and we received many thoughtful suggestions for areas where guidance could clarify existing rules, eliminate unnecessary complexity, and provide reliance authority in areas where non-precedential IRS rules already exist. With respect to all of the projects described in this plan (as well any added in our quarterly updates), regardless of how they are categorized here, we will be guided by the burden-reducing principles and policies described in aforementioned Executive Orders, and focusing on reducing burdens and complexity wherever possible.

As in past years, we intend to update and republish the 2017-2018 plan during the plan year to reflect additional items that have become priorities and guidance that we have published during the plan year. The periodic updates allow us flexibility to consider comments received from taxpayers and tax practitioners relating to additional guidance priorities and to respond to developments arising during the plan year.

The published guidance process can be fully successful only if we have the benefit of the insight and experience of taxpayers and practitioners who must apply the internal revenue laws. Therefore, we invite the public to continue to provide us with their comments and suggestions as we develop guidance throughout the plan year.

Additional copies of the 2017-2018 Priority Guidance Plan can be obtained from the IRS website at <http://www.irs.gov/uac/Priority-Guidance-Plan>. Copies can also be obtained by calling Treasury's Office of Public Affairs at (202) 622-2960.

OFFICE OF TAX POLICY
AND
INTERNAL REVENUE SERVICE

2017-2018 PRIORITY GUIDANCE PLAN

Updated as of October 12, 2017

Released October 20, 2017

PART 1. E.O. 13789 - IDENTIFYING AND REDUCING REGULATORY BURDENS

1. Withdrawal of proposed regulations under §2704 regarding restrictions on liquidation of an interest for estate, gift, and generation-skipping transfer taxes. Proposed regulations were published on August 4, 2016.
2. Withdrawal of proposed regulations under §103 regarding the definition of political subdivision. Proposed regulations were published on February 23, 2016.
3. Proposed amendment of regulations under §7602 regarding the participation of attorneys described in §6103(n) in a summons interview. Final regulations were published on July 14, 2016.
4. Proposed removal of temporary regulations under §707 concerning treatment of liabilities for disguised sale purposes and review of regulations under §752 concerning liabilities recognized as recourse partnership liabilities. Temporary and proposed regulations were published on October 5, 2016.
5. Delay and proposed removal of documentation regulations under §385 and review of other regulations under §385. Final, temporary, and proposed regulations were published on October 21, 2016.
 - PUBLISHED 08/14/17 in IRB 2017-33 as NOT. 2017-36 (RELEASED 07/28/17).
6. Proposed modification of regulations under §367 regarding the treatment of certain transfers of property to foreign corporations. Final regulations were published on December 16, 2016.
7. Proposed modification of regulations under §337(d) regarding certain transfers of property to regulated investment companies (RICs) and real estate investment trusts (REITs). Temporary and proposed regulations were published on June 8, 2016.

8. Proposed modification of regulations under §987 on income and currency gain or loss with respect to a §987 qualified business unit. Final regulations were published on December 8, 2016.

PART 2. NEAR-TERM BURDEN REDUCTION

1. Guidance removing or updating regulations that are unnecessary, create undue complexity, impose excessive burdens, or fail to provide clarity and useful guidance.
2. Guidance under §871(m), including with respect to non-delta-one transactions.
 - PUBLISHED 08/21/17 in IRB 2017-34 as NOT. 2017-42 (RELEASED 08/05/17).
3. Guidance under Chapter 3 (§§1441–1446) and Chapter 4 (§§1471–1474). Final and temporary regulations were published on January 6, 2017. Guidance may include the following: addressing withholding on gross proceeds and foreign passthru payments under Chapter 4; coordinating certain documentation requirements for participating foreign financial institutions with the requirements under IGAs; revising the withholding requirements on insurance premiums under Chapter 4; guidance concerning certain due diligence requirements of withholding agents under Chapter 3, including the requirement to collect and report foreign taxpayer identification numbers of certain accountholders; and guidance on refunds and credits under Chapter 3, Chapter 4, and related provisions. Notice 2015-10 (regarding refunds and credits) was published on May 18, 2015.
 - PUBLISHED 10/10/17 in IRB 2017-41 as NOT. 2017-46 (RELEASED 09/25/17).
4. Regulations under §§1014(f) and 6035 regarding basis consistency between estate and person acquiring property from decedent. Proposed and temporary regulations were published on March 4, 2016.
5. Guidance under §170(e)(3) regarding charitable contributions of inventory.
6. Final regulations under §263A regarding the inclusion of negative amounts in additional §263A costs. Proposed regulations were published on September 5, 2012.
7. Final regulations under §§4051 and 4071 on heavy trucks, tractors, trailers, and tires. Proposed regulations were published on March 31, 2016.

8. Final regulations under §2642(g) describing the circumstances and procedures under which an extension of time will be granted to allocate GST exemption.
9. Regulations streamlining the §754 election statement.
 - PUBLISHED 10/12/17 in FR as REG-116256-17 (NPRM).
10. Guidance under §1362(f) regarding the validity or continuation of an S corporation election in certain situations involving disproportionate distributions, inconsistent tax return filings, or omissions on Form 2553, Election by a Small Business Corporation.
11. Guidance under §301.9100 regarding relief for late regulatory elections.
12. Relief for late elections due to erroneously late-filed partnership and REMIC returns.
 - PUBLISHED 09/18/17 in IRB 2017-38 as NOT. 2017-47 (RELEASED 09/01/17).
13. Final regulations under §3402(q). Proposed regulations were published on December 30, 2016.
 - PUBLISHED 09/27/17 in FR as TD 9824.
14. Guidance on refunds under Combat-Injured Veterans Tax Fairness Act.
15. Guidance under §954(c) regarding foreign currency gains.
16. Guidance under §954, including regarding the use of foreign statement reserves for purposes of measuring qualified insurance income under §954(i).
17. Final regulations and related guidance on closed defined benefit plans and related matters. Proposed regulations were published on January 29, 2016.
 - PUBLISHED 09/18/17 in IRB 2017-38 as NOT. 2017-45 (RELEASED 08/31/17).
18. Guidance under §3405 regarding distributions made to payees, including military and diplomatic payees, with an address outside the United States.
19. Update to Revenue Ruling 67-390.

PART 3. BIPARTISAN BUDGET ACT OF 2015 - PARTNERSHIP AUDIT REGULATIONS

1. General guidance under new partnership audit rules.
2. Regulations addressing administrative and judicial review rules.
3. Regulations addressing push out election by tiered structures.
4. Regulations addressing adjustments to bases and capital accounts and the tax and book basis of partnership property.
5. Regulations addressing the operation of certain international provisions in the context of the centralized partnership audit regime, including rules relating to the withholding of tax on foreign persons, withholding of tax to enforce reporting on certain foreign accounts, and the treatment of creditable foreign tax expenditures of a partnership.

PART 4. GENERAL GUIDANCE

CONSOLIDATED RETURNS

1. Regulations under §1.1502-36 and related provisions regarding losses on subsidiary stock.
2. Regulations under §1.1502-75(d) regarding group continuation. Final regulations were published on September 8, 1966.
3. Final regulations under §1.1502-76 regarding when a member joins or leaves a consolidated group. Proposed regulations were published on March 6, 2015.
4. Final regulations under §1.1502-91 regarding the redetermination of consolidated net unrealized built-in gain and loss. Proposed regulations were published on October 24, 2011.

CORPORATIONS AND THEIR SHAREHOLDERS

1. Updating §301 regulations to reflect statutory changes.
2. Guidance under §305(b) regarding certain stock distributions by REITs and RICs.

- PUBLISHED 08/28/17 IN IRB 2017-35 as REV. PROC. 2017-45 (RELEASED 08/11/17).
3. Final regulations under §305(c) regarding the amount and timing of deemed distributions from conversion ratio adjustments on convertible debt and stock. Proposed regulations were published on April 13, 2016.
 4. Regulations regarding transactions involving the transfer or receipt of no net equity value. Proposed regulations were published on March 10, 2005.
 - PUBLISHED in FR on 07/13/17 as REG-139633-08 (WITHDRAWAL).
 5. Regulations under §336(e) to revise the treatment of certain stock dispositions as asset sales. Final regulations were published on May 15, 2015.
 6. Revising regulations under §1.337(d)-7 regarding the treatment of certain foreign corporations. Final regulations were published on August 2, 2013.
 7. Guidance regarding the application of §§355 and 361 to a distributing corporation's use of its controlled corporation's stock, securities, or other obligations to retire putative debt of the distributing corporation.
 8. Guidance regarding procedures of Pilot Program for issuing private letter rulings under §355.
 - PUBLISHED 10/10/17 in IRB 2017-41 as REV. PROC. 2017-52 (RELEASED 09/21/17).
 9. Revising regulations under §368(a)(1)(F). Final regulations were published on September 21, 2015.
 10. Guidance regarding continuity of interest under §368. Proposed regulations were published on December 19, 2011.
 11. Final regulations regarding the scope and application of §597. Proposed regulations were published on May 20, 2015.

EMPLOYEE BENEFITS

A. Retirement Benefits

1. Regulations updating the rules applicable to ESOPs.

2. Final regulations on the application of the normal retirement age regulations under §401(a) to governmental plans. Proposed regulations were published on January 27, 2016.
3. Guidance under §401(a)(9) on the use of lump sum payments to replace lifetime income being received by retirees under defined benefit pension plans.
4. Final regulations regarding Qualified Nonelective Contributions (QNECs) and Qualified Matching Contributions (QMACs). Proposed regulations were published on January 18, 2017.
5. Announcements on hardship distributions and loans from retirement plans as a result of Hurricanes Harvey and Irma.
 - PUBLISHED 09/25/17 in IRB 2017-39 as ANN. 2017-11 (RELEASED 08/30/17).
 - PUBLISHED 10/02/17 in IRB 2017-40 as ANN. 2017-13 (RELEASED 09/12/17).
6. Regulations under §§219, 408, 408A, and 4973 regarding IRAs.
7. Guidance updating regulations for service credit and vesting under §411.
8. Regulations under §411(a)(11). Proposed regulations were published on October 9, 2008.
9. Guidance on the treatment of future interest credits and annuity conversion factor under a hybrid defined benefit plan and adjustments under a variable annuity plan for purposes of satisfying certain qualification requirements.
10. Guidance related to church plans.
11. Regulations on the definition of governmental plan under §414(d). An ANPRM was published on November 8, 2011.
12. Guidance regarding the aggregation rules under §414(m).
13. Final regulations under §415 regarding §7873 treaty fishing rights income. Proposed regulations were published on November 15, 2013.
14. Final regulations under §417(e) that update the minimum present value requirements for defined benefit plans. Proposed regulations were published on November 25, 2016.

15. Notice providing model amendments for §417(e).
 - PUBLISHED 09/05/17 in IRB 2017-36 as NOT. 2017-44 (RELEASED 08/18/17).
 16. Revenue procedures relating to approval for funding method changes.
 17. Final regulations and other guidance under §430(h)(3) revising the mortality tables used for pension funding purposes. Proposed regulations were published on December 29, 2016.
 - PUBLISHED 10/05/17 in FR as TD 9826.
 18. Notice on funding relief as a result of Hurricanes Harvey and Irma.
 - PUBLISHED 10/02/17 in IRB 2017-40 as NOT. 2017-49 (RELEASED 09/12/17).
 19. Revenue Procedure on multiemployer plan benefit suspensions under §432(e)(9) as amended by the Multiemployer Pension Reform Act of 2014.
 - PUBLISHED 07/31/17 in IRB 2017-31 as REV. PROC. 2017-43 (RELEASED 07/12/17).
 20. Regulations relating to the reporting requirements under §6057. Proposed regulations were published on June 21, 2012.
 21. Additional guidance on issues relating to lifetime income from retirement plans and IRAs.
 22. Revenue procedure modifying EPCRS to provide guidance with regard to certain corrections.
 23. Guidance on missing participants.
- B. Executive Compensation, Health Care and Other Benefits, and Employment Taxes**
1. Regulations under §86 regarding rules for lump-sum elections.
 2. Regulations under §§119 and 132 regarding employer-provided meals.

3. Updated guidance on the classification system for the line of business determination under §1.132-4 for purposes of qualified employee discounts and no-additional-cost services.
4. Guidance under §162(m) addressing certain situations involving a short taxable year.
5. Final regulations on income inclusion and various other issues under §409A. Proposed regulations were published on December 8, 2008, and on June 22, 2016.
6. Revenue ruling under §419A on the definition of post-retirement medical benefits.
7. Regulations amending §1.419A-2T relating to collectively-bargained welfare benefit funds.
8. Final regulations under §457(f) and related guidance on ineligible plans. Proposed regulations were published on June 22, 2016.
9. Guidance on the application of §409A to compensation deferred prior to 2009 and includible in income under §457A no later than 2017.
10. Final regulations under §512 explaining how to compute unrelated business taxable income of voluntary employees' beneficiary associations described in §501(c)(9). Proposed regulations were published on February 6, 2014.
11. Guidance on the application of §1402(a)(13) to limited liability companies.
12. Guidance under §3402 to remove alternative method of figuring withholding based on combined income, employee social security, and employee Medicare tax withholding tables.
13. Guidance on certain transactions involving welfare benefit funds.
14. Guidance on issues under §4980H.
15. Regulations under §4980I regarding the excise tax on high cost employer-provided coverage.
16. Guidance on procedures under §7436.
17. Guidance under §9831(d) on qualified small employer health reimbursement arrangements (QSEHRAs) as added by section 18001 of the 21st Century Cures Act.

EXCISE TAX

1. Guidance under §48.4041-7 on dual use of taxable liquid fuel.
2. Guidance on the definition of compressed natural gas for purposes of §§4041 and 6426.
3. Guidance on claims for dyed fuel relief under Notice 2017-30.
4. Regulations under §4261(e)(3)(C) regarding the application of the domestic air transportation excise tax under §4261 to the purchase of mileage awards.
5. Guidance on whether gasoline blendstocks combined with taxable fuel qualify for the alternative fuel mixture credit under §6426(e).
6. Final regulations under ACA §9010 regarding retrospectively rated insurance contracts.
7. Guidance on the allocated fee amount under ACA §9010 for the 2019 fee year.
8. Final regulations for ACA §9010 on definition of a covered entity.

EXEMPT ORGANIZATIONS

1. Update revenue procedures on grantor and contributor reliance under §§170 and 509, including update to Revenue Procedure 2011-33 for EO Select Check.
2. Final regulations on §509(a)(3) supporting organizations. Proposed regulations were published on February 19, 2016.
3. Guidance under §512 regarding methods of allocating expenses relating to dual use facilities.
4. Guidance on §529(c)(3)(D) on the recontribution within 60 days of refunded qualified higher education expenses as added by section 302 of the Protecting Americans from Tax Hikes Act of 2015.
5. Final regulations under §529A on Qualified ABLE Programs as added by section 102 of the ABLE Act of 2014. Proposed regulations were published on June 22, 2015.
6. Guidance under §4941 regarding a private foundation's investment in a partnership in which disqualified persons are also partners.

7. Update to Revenue Procedure 92-94 on §§4942 and 4945.
 - PUBLISHED 10/02/17 in IRB 2017-40 as REV. PROC. 2017-53 (RELEASED 09/14/17).
8. Guidance regarding the excise taxes on donor advised funds and fund management.
9. Final regulations under §6104(c). Proposed regulations were published on March 15, 2011.
10. Final regulations designating an appropriate high-level Treasury official under §7611. Proposed regulations were published on August 5, 2009.

FINANCIAL INSTITUTIONS AND PRODUCTS

1. Regulations relating to the definition of registered form under §§149(a) and 163(f).
 - PUBLISHED 09/19/17 in FR as REG-125374-16 (NPRM).
2. Guidance under §166 on the conclusive presumption of worthlessness for bad debts. Notice 2013-35, which requested comments on the existing rules, was published on June 10, 2013.
3. Regulations under §249 relating to the amount of a repurchase premium attributable to the cost of borrowing.
4. Guidance under §§446, 1275, and 6050H to address the treatment and reporting of capitalized interest on modified home mortgages.
5. Guidance addressing issues relating to mark-to-market accounting under §475.
6. Final regulations under §851 relating to investments in stock and securities. Proposed regulations were published on September 28, 2016.
7. Guidance regarding application of the cure provisions under §851(i) for regulated investment companies (RICs) and §856(c)(7) and (g)(5) for real estate investment trusts (REITs).
8. Guidance clarifying the definition of income in §856(c)(3) for purposes of the REIT qualification tests.

9. Guidance under §856(c)(5)(J) to determine whether Subpart F income and passive foreign investment company (PFIC) inclusions are treated as qualifying income for purposes of §856(c).
10. Regulations under §1001 on the modification of debt instruments, including issues relating to disregarded entities.
11. Guidance on the constant yield election under §1276(b).
12. Regulations under §7872. Proposed regulations were published on August 20, 1985.
13. Guidance on the exchange of mortgage-backed securities.
14. Guidance on the treatment of fees relating to debt instruments and other securities.

GENERAL TAX ISSUES

1. Guidance under §§24, 25A, and 32 pursuant to section 208 of the Protecting Americans from Tax Hikes Act of 2015.
2. Final regulations on the allocation of the research credit to corporations and trades or businesses under common control for purposes of §41(f)(1). Final, temporary, and proposed regulations were published on April 3, 2015.
3. Final regulations under §42 relating to compliance monitoring, including issues identified in Notice 2012-18. Proposed and temporary regulations were published on February 25, 2016.
4. Final regulations under §45D that revise and clarify certain rules relating to recapture of the new markets tax credit as well as other issues. Proposed regulations were published August 11, 2008.
5. Marginal well production credit under §45I for natural gas.
 - PUBLISHED 10/02/17 in IRB 2017-40 as NOT. 2017-51 (RELEASED 9/12/17).
6. Guidance under §47 concerning the rehabilitation credit and 2017 disaster relief.
7. Guidance on the modification, extension, and phase out of the investment tax credit (ITC) for solar energy property under §48.

8. Revenue Ruling under §102 regarding whether contributions of money received through a crowdfunding site to pay for medical expenses under §213 are excludable from income because the contributions are gifts.
9. Final regulations under §152 regarding dependency deduction.
10. Guidance facilitating leave-donation programs in areas affected by Hurricane and Tropical Storm Harvey.
 - PUBLISHED 09/25/2017 in IRB 2017-39 as NOT. 2017-48 (RELEASED 09/05/17).
11. Guidance facilitating leave-donation programs in areas affected by Hurricane and Tropical Storm Irma.
 - PUBLISHED on 10/02/2017 in IRB 2017-40 as NOTICE 2017-52 (RELEASED 09/14/17).
12. Guidance extending relief originally provided in Notice 2011-14, 2011-11 I.R.B. 544, for the Treasury Department's Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets (HFA Hardest Hit Fund).
 - PUBLISHED 08/07/2017 in IRB 2017-32 as NOT. 2017-40 (RELEASED 07/31/17).
13. Guidance under §167 regarding a safe harbor for normalization.
 - PUBLISHED 09/18/17 in IRB 2017-38 as REV. PROC. 2017-47 (RELEASED 09/07/2017).
14. Final regulations under §170 regarding charitable contributions. Proposed regulations were published on August 7, 2008.
15. Final regulations under §199 regarding allocation of W-2 wages in a short taxable year and in an acquisition or disposition. Proposed and temporary regulations were published on August 27, 2015.
16. Regulations under §199 relating to computer software.
17. Guidance on qualified films under §199.
18. Guidance clarifying whether the business use of an aircraft by a lessee that is a five percent owner or related party of the lessor of the aircraft is qualified business use for purposes of §280F.

19. Final regulations under §468A involving the decommissioning costs of a nuclear power plant.
20. Final regulations under §1411 regarding issues related to the net investment income tax. Proposed regulations were published on December 2, 2013.
21. Guidance under §7701 providing criteria for treating an entity as an integral part of a state, local, or tribal government.

GIFTS AND ESTATES AND TRUSTS

1. Guidance on basis of grantor trust assets at death under §1014.
2. Final regulations under §2032(a) regarding imposition of restrictions on estate assets during the six month alternate valuation period. Proposed regulations were published on November 18, 2011.
3. Guidance under §2053 regarding personal guarantees and the application of present value concepts in determining the deductible amount of expenses and claims against the estate.

INSURANCE COMPANIES AND PRODUCTS

1. Final regulations under §72 on the exchange of property for an annuity contract. Proposed regulations were published on October 18, 2006.
2. Guidance under §§807 and 816 regarding the determination of life insurance reserves for life insurance and annuity contracts using principles-based methodologies, including stochastic reserves based on conditional tail expectation.

INTERNATIONAL

A. Subpart F/Deferral

1. Guidance on the treatment of upfront payments on swaps under §956. Temporary and proposed regulations were published on May 8, 2015.
2. Guidance on the treatment under §956(c) of certain property temporarily stored in the United States following Hurricane Irma or Hurricane Maria.
3. Guidance under §§1295, 1297, and 1298 on passive foreign investment companies. Proposed regulations regarding foreign insurance companies were published on April 24, 2015.

B. Inbound Transactions

1. Regulations under §§897 and 1445 relating to changes in the Protecting Americans from Tax Hikes Act of 2015.

C. Outbound Transactions

1. Regulations under §367. Notice 2016-73 regarding the treatment of certain triangular reorganizations involving foreign corporations, and the amount of an income inclusion required in certain inbound nonrecognition transactions was released December 6, 2016. Notice 2014-32 regarding triangular reorganizations involving foreign corporations was released April 25, 2014.
2. Guidance on transfers of property to partnerships with related foreign partners and controlled transactions involving partnerships. Temporary and proposed regulations were published on January 19, 2017.

D. Foreign Tax Credits

1. Guidance under §901, including on the allocation of foreign tax imposed on disregarded entities and partnerships.
2. Final regulations under §901(m) on covered asset acquisitions. Temporary and proposed regulations were published on December 7, 2016.
3. Guidance under §905, including final regulations under §905(c) on foreign tax redeterminations. Temporary and proposed regulations were published on November 7, 2007. Notice 2016-10 was released on January 15, 2016.

E. Transfer Pricing

1. Guidance under §482, including with respect to the treatment and allocation of risk. Temporary and proposed regulations were published on September 16, 2015.
2. Annual Report on the Advance Pricing Agreement Program. Announcement 2017-03 was released March 27, 2017.

F. Sourcing and Expense Allocation

1. Regulations and other guidance under §861 regarding the allocation and apportionment of interest expense, including guidance related to interest expense attributable to certain loans to related partnerships.

2. Regulations under §861 on the character of income, including income arising in transactions involving intellectual property and the provision of digital goods and services.

G. Treaties

1. Guidance under §894 and treaties, including regarding the application of various treaty provisions to hybrid entities and instruments.

H. Other

1. Guidance on the physical presence of certain individuals in the Commonwealth of Puerto Rico or the United States Virgin Islands under §937(a) following Hurricane Irma or Hurricane Maria.
2. Guidance under Chapter 3 (§§1441–1446) and Chapter 4 (§§1471–1474), including regulations on verification requirements for sponsoring entities for Chapter 4 purposes, and regulations regarding the withholding obligations on deemed distributions from conversion ratio adjustments on convertible debt and stock. Final, temporary, and proposed regulations under chapters 3 and 4 were published on January 6, 2017. Proposed regulations (regarding verification requirements for sponsoring entities) were published on January 6, 2017. Proposed regulations (regarding conversion ratio adjustments) were published on April 13, 2016.
3. Regulations under §§6039F, 6048, and 6677 on foreign trust reporting and reporting with respect to foreign gifts, and regulations under §§643(i) and 679 relating to certain transactions between U.S. persons and foreign trusts.
4. Regulations and other guidance under §7701.
5. Regulations under §1256(g)(2) regarding the definition of a foreign currency contract, in light of the decision in *Wright v. Commissioner*, 809 F.3d 877 (6th Cir. 2016).

PARTNERSHIPS

1. Final regulations under §1.337(d)-3 relating to partnership transactions involving a corporate partner's stock or other equity interests. Final, temporary, and proposed regulations were published on June 12, 2015.
2. Final regulations under §469(h)(2) concerning limited partners and material participation. Proposed regulations were published on November 28, 2011.
3. Final regulations on the fractions rule under §514(c)(9)(E).

4. Regulations to update the securities partnership aggregation rules under §704(c).
5. Final regulations under §§704, 734, 743, and 755 arising from the American Jobs Creation Act of 2004, regarding the disallowance of certain partnership loss transfers and no reduction of basis in stock held by a partnership in a corporate partner. Proposed regulations were published on January 16, 2014.
6. Guidance under §707 on disguised sales of partnership interests.
7. Final regulations under §732(f) regarding aggregation of basis for partnership distributions involving equity interests of a partner. Proposed regulations were published on June 12, 2015.
8. Final regulations under §752 regarding related person rules. Proposed regulations were published on December 16, 2013.
9. Final regulations under §§761 and 1234 on the tax treatment of noncompensatory partnership options. Proposed regulations were published on February 5, 2013.
10. Guidance under §7704(d)(1)(E) regarding qualifying income derived from fertilizer for publicly traded partnerships.

TAX ACCOUNTING

1. Guidance under §§167 and 168 for determining whether certain assets used by a wireline telecommunication service provider are primarily used for providing one-way or two-way communication services.
2. Revenue procedure under §263(a) regarding the capitalization of natural gas transmission and distribution property.
3. Guidance regarding the treatment of deferred revenue in stock acquisitions.
4. Regulations under §453A regarding contingent payment sales.
5. Regulations under §472 regarding dollar-value last-in, first-out (LIFO) inventories, including rules for combining pools as a result of a change in method of accounting, certain corporate acquisitions, and certain nonrecognition transactions.
6. Final regulations amending §1.472-8 regarding the inventory price index computation (IPIC) method.

TAX ADMINISTRATION

1. Guidance under §6011.
2. Guidance under §§25A, 6050S, and 6724(f) relating to changes made by sections 804 and 805 of the Trade Preferences Extension Act of 2015 regarding education tax credits and related information reporting. Proposed regulations were published on August 2, 2016.
3. Update to §§6051 and 6052 regarding truncated taxpayer identification numbers.
 - PUBLISHED 09/20/17 in FR as REG-105004-16 (NPRM)
4. Guidance under section 2006 of the Fixing America's Surface Transportation Act of 2015 regarding due dates and extensions for certain forms.
 - PUBLISHED 07/20/17 in FR as REG-128483-15 (NPRM)
 - PUBLISHED 07/20/17 in FR as TD 9821 (FINAL and TEMP)
5. Finalize removal of automatic extension of time to file certain information returns. Proposed and temporary regulations were published on August 13, 2015.
6. Regulations under §§6662, 6662A, and 6664 regarding accuracy-related penalties relating to understatements. Notice 2005-12, which provided interim guidance, was published on February 14, 2005.
7. Final regulations under §6707A, as amended by section 2041(a) of the Small Business Jobs Act of 2010, regarding the penalty for failure to disclose reportable transactions. Proposed regulations were published on August 28, 2015.
8. Guidance on safe harbors for de minimis errors on information returns and payee statements under section 202 of the Protecting Americans from Tax Hikes Act of 2015.
9. Guidance under §7123 concerning alternative dispute resolution.
10. Guidance under §7345.
11. Update to Revenue Procedure 2007-56 (Combat Zone and Disaster Relief).
12. Update to the whistleblower regulations.

13. Guidance on user fees.
 - PUBLISHED 07/19/17 in FR as TD 9820.

TAX-EXEMPT BONDS

1. Guidance on remedial actions for tax-advantaged bonds under §§54A, 54AA, and 141.
2. Guidance on private activity bonds under §141.
3. Regulations on public approval requirements for private activity bonds under §147(f). Proposed regulations were published on September 9, 2008.
 - PUBLISHED 09/28/17 in FR as REG-128841-07 (NPRM).
4. Guidance on rebate overpayment under §148.
 - PUBLISHED 09/11/17 in IRB 2017-37 as REV. PROC. 2017-50 (RELEASED 08/25/17).
5. Regulations on bond reissuance under §150.

APPENDIX – Regularly Scheduled Publications

JULY 2017

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
 - PUBLISHED 07/03/17 in IRB 2017-27 as REV. RUL. 2017-14 (RELEASED 06/16/17).
2. Notice setting forth updates for the corporate bond yield curve for plan years beginning in July 2017, the 24-month average segment rates, the funding segment rates applicable for July 2017, the spot segment rates for June 2017 that are used for determining minimum present values, and the 30-year Treasury rates.
 - PUBLISHED 07/31/17 in IRB 2017-31 as NOT. 2017-39 (RELEASED 07/13/17).

3. Revenue ruling providing the average annual effective interest rates charged by each Farm Credit Bank District.
 - PUBLISHED 08/28/17 in IRB 2017-35 as REV. RUL. 2017-16 (RELEASED 08/25/17).

AUGUST 2017

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
 - PUBLISHED 08/07/17 in IRB 2017-32 as REV. RUL. 2017-15 (RELEASED 07/18/17).
2. Notice setting forth updates for the corporate bond yield curve for plan years beginning in August 2017, the 24-month average segment rates, the funding segment rates applicable for August 2017, the spot segment rates for July 2017 that are used for determining minimum present values, and the 30-year Treasury rates.
 - PUBLISHED 08/28/17 in IRB 2017-35 as NOT. 2017-43 (RELEASED 08/11/17).
3. Revenue procedure providing the domestic asset/liability percentages and the domestic investment yield percentages for taxable years beginning after December 31, 2015, for foreign companies conducting insurance business in the United States.
 - PUBLISHED 08/28/17 in IRB 2017-35 as REV. PROC. 2017-44 (RELEASED 08/11/17).

SEPTEMBER 2017

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
 - PUBLISHED 09/05/17 in IRB 2017-36 as REV. RUL. 2017-17 (RELEASED 08/16/17).
2. Revenue ruling under §6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period October through December 2017.
 - PUBLISHED 09/25/17 in IRB 2017-18 as REV. RUL. 2017-18 (RELEASED 09/08/17).

3. Notice setting forth updates for the corporate bond yield curve for plan years beginning in September 2017, the 24-month average segment rates, the funding segment rates applicable for September 2017, the spot segment rates for August 2017 that are used for determining minimum present values, and the 30-year Treasury rates.
 - PUBLISHED 10/02/17 in IRB 2017-40 as NOT. 2017-50 (RELEASED 09/13/17).
4. Notice under §274 regarding the deemed substantiation of travel expenses using per diem rates.
5. Update of Notice 2004-83 to add approved applicants for designated private delivery service status under §7502(f). Will be published only if any new applicants are approved.
6. Notice identifying the counties that experienced exceptional, extreme, or severe drought during the preceding 12-month period ending August 31, 2017, for purposes of determining whether the replacement period within which to replace livestock sold on account of drought is extended under §1033(e)(2)(B) and Notice 2006-82.
7. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the second half of 2017 for use in valuing personal flights on employer-provided aircraft.
8. Notice on annual adjustment in the fee imposed to fund the Patient Centered Outcomes Research Trust Fund.

OCTOBER 2017

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288 and 7520.
 - PUBLISHED 10/10/17 in IRB 2017-41 as REV. RUL. 2017-20 (RELEASED 09/19/17).
2. Notice setting forth updates for the corporate bond yield curve for plan years beginning in October 2017, the 24-month average segment rates, the funding segment rates applicable for October 2017, the spot segment rates for September 2017 that are used for determining minimum present values, and the 30-year Treasury rates.
3. Revenue procedure under §1 and other sections of the Code regarding inflation adjusted items for 2018.

4. Revenue procedure providing the loss payment patterns and discount factors for the 2017 accident year to be used for computing unpaid losses under §846.
5. Revenue procedure providing the salvage discount factors for the 2017 accident year to be used for computing discounted estimated salvage recoverable under §832.
6. Update of Revenue Procedure 2005-27 listing the tax deadlines that may be extended by the Commissioner under §7508A in the event of a Presidentially-declared disaster or terrorist attack. Will be published only if there are any updates.
7. Guidance providing the amounts of unused housing credit carryover allocated to qualified states under §42(h)(3)(D) for the calendar year.
8. Guidance providing the calendar year inflation adjustment factor to be used in determining the credit for carbon dioxide (CO₂) sequestration under §45Q.

NOVEMBER 2017

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288 and 7520.
2. Revenue ruling providing the "base period T-Bill rate" as required by §995(f)(4).
3. Revenue ruling setting forth covered compensation tables under §401(l)(5)(E) that are used for purposes of applying the permitted disparity rules under §401(l) to defined benefit plans for the 2018 plan year.
4. Notice setting forth updates for the corporate bond yield curve for plan years beginning in November 2017, the 24-month average segment rates, the funding segment rates applicable for November 2017, the spot segment rates for October 2017 that are used for determining minimum present values, and the 30-year Treasury rates.
5. Update of Revenue Procedure 2016-13 regarding adequate disclosure for purposes of the §6662 substantial understatement penalty and the §6694 preparer penalty. Will be published only if there are any updates.
6. Notice setting forth cost-of living adjustments effective January 1, 2018, applicable to the dollar limits on benefits under qualified defined benefit pension plans and other provisions affecting certain plans of deferred compensation.
7. Federal Register Notice on Railroad Retirement Tier 2 tax rate.

8. Notice under §274 regarding the 2018 optional standard mileage rates.
9. Notice setting forth required amendment deadlines for §401(a) plans with respect to certain changes in qualification requirements.
10. Notice providing guidance for public power providers to submit applications relating to reallocations of New Clean Renewable Energy Bonds under §54C.

DECEMBER 2017

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
2. Revenue ruling under §6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period January through March 2018.
3. Notice setting forth updates for the corporate bond yield curve for plan years beginning in December 2017, the 24-month average segment rates, the funding segment rates applicable for December 2017, the spot segment rates for November 2017 that are used for determining minimum present values, and the 30-year Treasury rates.

JANUARY 2018

1. Revenue procedure updating the procedures for issuing private letter rulings, determination letters, and information letters on specific issues under the jurisdiction of the Chief Counsel.
2. Revenue procedure updating the procedures for furnishing technical advice, including technical expedited advice, to certain IRS offices, in the areas under the jurisdiction of the Chief Counsel.
3. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of certain Associate Chief Counsel (Corporate), Associate Chief Counsel (Financial Institutions and Products), Associate Chief Counsel (Income Tax and Accounting), Associate Chief Counsel (Passthroughs and Special Industries), Associate Chief Counsel (Procedure and Administration), and Associate Chief Counsel (Tax Exempt and Government Entities) on which advance letter rulings or determination letters will not be issued.
4. Revenue procedure updating the procedures for issuing determination letters and letter rulings on issues under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division, Employee Plans Rulings and Agreements Office.

5. Revenue procedure updating the procedures for issuing determination letters under the jurisdiction of the Office of the Commissioner, Tax Exempt and Government Entities Division, Exempt Organizations Rulings and Agreements Office.
6. Revenue procedure updating the previously published list of "no-rule" issues under the jurisdiction of the Associate Chief Counsel (International) on which advance letter ruling or determination letters will not be issued.
7. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
8. Revenue ruling providing the dollar amounts, increased by the 2018 inflation adjustment, for §1274A.
9. Revenue procedure under §280F providing limitations on depreciation deductions for owners of passenger automobiles first placed in service during the calendar year and amounts to be included in income by lessees of passenger automobiles first leased during the calendar year.
10. Notice setting forth updates for the corporate bond yield curve for plan years beginning in January 2018, the 24-month average segment rates, the funding segment rates applicable for January 2018, the spot segment rates for December 2017 that are used for determining minimum present values, and the 30-year Treasury rates.
11. Revenue procedure under §143 regarding average area purchase price.
12. Notice providing the maximum allowable value for use of the fleet-average value and vehicle-cents-per-mile rules to value employer-provided automobiles first made available to employees for personal use in the calendar year.
13. Revenue ruling setting forth the prevailing state assumed interest rates provided for the determination of reserves under §807 for contracts issued in 2017 and 2018.

FEBRUARY 2018

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.

2. Notice setting forth updates for the corporate bond yield curve for plan years beginning in February 2018, the 24-month average segment rates, the funding segment rates applicable for February 2018, the spot segment rates for January 2018 that are used for determining minimum present values, and the 30-year Treasury rates.
3. Notice under §911 on the Housing Cost Amount for 2018.
4. Notice providing the inflation adjustment factor for renewable electricity (revised).

MARCH 2018

1. Revenue procedure providing annual indexing required under §36B.
2. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
3. Guidance providing the 2018 calendar year resident population estimates used in determining the state housing credit ceiling under §42(h) and the private activity bond volume cap under §146.
4. Revenue ruling under §6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period April through June 2018.
5. Revenue ruling setting forth the terminal charge and the standard industry fare level (SIFL) cents-per-mile rates for the first half of 2018 for use in valuing personal flights on employer-provided aircraft.
6. Notice setting forth updates for the corporate bond yield curve for plan years beginning in March 2018, the 24-month average segment rates, the funding segment rates applicable for March 2018, the spot segment rates for February 2018 that are used for determining minimum present values, and the 30-year Treasury rates.
7. Revenue procedure providing the annual update to the List of Automatic Changes for taxpayer changes in method of accounting.

APRIL 2018

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.

2. Revenue procedure providing a current list of countries and the dates those countries are subject to the §911(d)(4) waiver and guidance to individuals who fail to meet the eligibility requirements of §911(d)(1) because of adverse conditions in a foreign country.
3. Notice setting forth updates for the corporate bond yield curve for plan years beginning in April 2018, the 24-month average segment rates, the funding segment rates applicable for April 2018, the spot segment rates for March 2018 that are used for determining minimum present values, and the 30-year Treasury rates.
4. Guidance providing the calendar year inflation adjustment factor and reference prices for the renewable electricity production credit under §45.

MAY 2018

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.
2. Notice setting forth updates for the corporate bond yield curve for plan years beginning in May 2018, the 24-month average segment rates, the funding segment rates applicable for May 2018, the spot segment rates for April 2018 that are used for determining minimum present values, and the 30-year Treasury rates.
3. Revenue procedure providing guidance for use of the national and area median gross income figures by issuers of qualified mortgage bonds and mortgage credit certificates in determining the housing cost/income ratio under §143.
4. Revenue procedure under §223 regarding the inflation adjusted items for 2019.
5. Revenue procedure under §5000A concerning the 2018 national average premium for a bronze level of coverage.
6. Guidance providing the inflation adjustment factor to be used in determining the enhanced oil recovery credit under §43 for tax years beginning in the calendar year.
7. Notice regarding marginal production rates under §613A for oil and gas well depletion.

JUNE 2018

1. Revenue ruling setting forth tables of the adjusted applicable federal rates for the current month for purposes of §§42, 382, 1274, 1288, and 7520.

2. Revenue ruling under §6621 regarding the applicable interest rates for overpayments and underpayments of tax for the period July through September 2018.
3. Notice setting forth updates for the corporate bond yield curve for plan years beginning in June 2018, the 24-month average segment rates, the funding segment rates applicable for June 2018, the spot segment rates for May 2018 that are used for determining minimum present values, and the 30-year Treasury rates.
4. Notice setting forth the 2015 §45K(d)(2)(C) reference price for the nonconventional source production credit.
5. Notice setting the inflation adjustment factor for the credit for carbon dioxide (CO₂) sequestration under §45Q for calendar year 2017.