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

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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

Thursday, May 8, 2014

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

The committee met, pursuant to notice, at 10:03 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Royce, Capito, Garrett, Neugebauer, McHenry, Campbell, Pearce, Posey, Fitzpatrick, Luetkemeyer, Huizenga, Hurt, Stutzman, Mulvaney, Hultgren, Pittenger, Barr, Cotton, Rothfus; Waters, Maloney, Velazquez, Sherman, Meeks, Hinojosa, Clay, McCarthy of New York, Lynch, Green, Moore, Ellison, Carney, Foster, Kildee, Delaney, Sinema, Beatty, Heck, and Horsford.

Chairman HENSARLING. The committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time. This hearing is for the purpose of receiving the Secretary of the Treasury's annual report on the state of the international finance system.

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

Secretary Lew, we welcome you back to the committee. We trust that your testimony on the state of the international finance system will prove insightful and forthright.

I would note that on his very first day in office, President Obama declared his Administration would be, and I quote, "the most open and transparent in history." The President pledged a "new era," and an "unprecedented level of openness across the massive Federal Government."

Regrettably, the American people have instead witnessed what Time Magazine recently described as "the most secretive presidency in American history," an Administration that has "censored more documents and delayed or denied access to more government files than ever before." Again, the source is Time Magazine, not Tea Party Monthly—Time Magazine.

From matters surrounding the IRS, to Obamacare, to Benghazi, this Administration has refused to be accountable to the American people and their elected Representatives in the United States Congress, a co-equal branch of Government enshrined in Article I of our Constitution.

Too often the Administration has obfuscated answers, delayed answers, or refused to provide answers, a pattern that is seen throughout the Administration. To focus a moment on Treasury, the Center for Effective Government released a report card a few weeks ago grading Federal agencies on their implementation of the Freedom of Information Act. No agency in what is supposed to be history's "most open and transparent" received an A. The Treasury Department received a D, but in fairness to the Secretary, several agencies received an F.

This is not a surprise to many of us since requests for information from this committee unfortunately are too often ignored or delayed or, Mr. Secretary, produced on the eve of your next appearance. And Mr. Secretary, as you know—we know you are a busy man, but appearances before our committee have proven challenging to schedule, and during your last appearance before our committee, I personally asked you if this Administration had ever submitted a balanced budget. Twice, I did not receive an answer.

Also, in your last appearance before our committee, Mr. Garrett asked you if the Volcker Rule would have a negative impact on the corporate bond market. Three times you declined to answer that question. Mr. McHenry asked you whether Treasury had ever sought a legal opinion on debt payment prioritization. In that case, you did not answer four separate times.

Mr. Secretary, when it comes to my questioning I want to be fair, but I would like an answer. I would be happy to give you a moment to put it in context, but I would respectfully request, again, that questions that are put to you are answered.

Mr. Secretary, with respect to scheduling, we know that you have recently had surgery. We are glad that you are recovering. I think most of us have said that both privately and publicly.

And we are certainly not unsympathetic to the havoc that wreaked on your schedule. But I do note that press reports indicate that subsequent to your return to work, you did manage to schedule 2 full days of appearances in Detroit, 2 full days of meetings at the World Bank.

Today we are grateful, but we also know that you are only going to schedule 2 hours this month for a statutorily required appearance before our committee—a statutorily required appearance that is now 2 months late and comes on the heels of the last statutory appearance before the committee, which was 9 months late. As we both know, your next statutory appearance is scheduled next month. I would respectfully request that you prioritize the appearance and schedule sufficient time to answer all Member questions.

Briefly, let me turn to the state of the international finance system. On the important matter of increased taxpayer commitment to the IMF, I feel again, the Administration was somewhat less than open and transparent.

The fact that the IMF is moving forward with a package for the Ukraine without the quota increase would seem to belie the Administration's claim that the increase was essential to the IMF's ability to render effective assistance to Ukraine. I am sure we will hear more from the Secretary on that matter.

And as I gaze to my left and my right, looking at the national debt clock spinning out of control, I again wonder about the wisdom of effectively converting an emergency commitment to the IMF to a permanent one. And when I hear of proffered reforms, a robust exceptional access framework appears to be lacking, and it begs the question of whether on a go-forward basis, the reforms that have been proffered will lead the IMF to exacerbate or mitigate global bailout mentality. I believe Chairman Campbell will have more to say on this subject in his opening comments and in his questions.

Again, Mr. Secretary, we do welcome you back here. We wish you a continued good recovery. We look forward to having you back next month, at which time we hope you will be able to stay longer and catch up on your schedule.

The Chair now recognizes the ranking member for 4 minutes for an opening statement.

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

Mr. Secretary, we are delighted to have you here this morning. And I am very pleased that despite the fact that you have only enjoyed your position for a very short period of time, the Administration continues to be successful in growing this economy.

In the last 50 months, as you are indicating, the private sector has created 9.2 million jobs, and we are very pleased. Because of our oversight responsibilities here, we have worked hard, you have worked hard, and the housing market certainly is improving.

We are very pleased about the rise in home prices and, of course, what is happening with our homeowners as we get out from under the loss of wealth that we had been experiencing following the recession. Now, we have so many homes that are no longer underwater.

However, today this hearing is supposed to deal with concerns about what is happening in the international community. So I would like to move quickly to talk a little bit about the IMF.

I had hoped that by this point we would have ratified the IMF quota reforms that modernize the IMF to take account of rapid changes in the global economy. As you are well aware, these reforms were negotiated by the Bush Administration and completed in 2010 by President Obama. And despite repeated efforts by this Administration to secure their passage, they continue to languish here under the Republican-controlled House.

Negotiated in 2008 by the Bush Administration and completed in 2010 by President Obama, the reforms would modernize the IMF to take account of rapid changes in the global economy. But despite the benefits these reforms would entail, House Republicans already this year rejected two efforts by the Administration to attach to larger measures legislative language that would authorize U.S. participation in the reform package.

The 2010 agreement would double the IMF's general resources to ensure the emergency lender has enough firepower to respond to crisis hitting its members. It would also update the governing structure, how the IMF's voting power is distributed among members, to reflect a global economy in which emerging markets are now major growth drivers and some European countries have lost their economic might.

These reforms are an essential first step to maintain the IMF's legitimacy in a volatile world. But none of this will happen until the United States has approved its new quota, which would require a shift in U.S. funds, not new financial commitment.

In my view, depriving it of the resources to combat future global market crises would directly undercut the U.S. national interest. Growth remains below potential in most regions, including in major markets for the United States, and unemployment in many countries remains at historic highs, with the number of long-term jobless still growing. If these crises are not solved soon, an entire generation could be blighted.

Global stability is ultimately nurtured through trust in international institutions that resolve issues through cooperation rather than economic or political dominance. Should the IMF reforms continue to be delayed, what is at risk is the trust that is key to the stability of the international system.

I see that my time has expired, so I yield back. And thank you very much.

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

Mr. CAMPBELL. Thank you, Mr. Chairman.

And thank you for coming, Mr. Secretary.

As you know, I and the majority of this committee opposed the 2010 agreement that was made by the Administration, made almost 4 years ago now. But there are three points I want to—you and I have discussed and debated that opposition both publicly and privately.

There are three points I would like to make in my 3 minutes about that opposition. Point one: Please don't confuse the opposition to the agreement with opposition to the IMF or the United States' leadership role in the IMF. The IMF serves a very important purpose worldwide for stability of economies around the world and the world economy generally, and the United States' leadership role in it has been important, has been critical, and is a leadership role which we should not abdicate and from which we should not step back.

So please understand and don't confuse, just because we don't agree with the agreement that was made 4 years ago doesn't mean that we are against the U.S. involvement in, leadership of, or the mission of the IMF. We are not.

That being said, here is what we don't agree with: We don't believe that the IMF, in order to achieve that mission, needs any more taxpayer money. Now I know your belief is, and I am sure you will say in your opening remarks, that it is not additional taxpayer money because it has already been put in an account, the NAB account, with the IMF. I get that. But we can rescind that. That is not a permanent commitment at this point.

In fact, we could introduce a bill tomorrow to rescind about $60 billion of that and bring that money back. And that is what I think we ought to do is we ought to be bringing that money back, because the IMF has over $200 billion in forward-lending authority. It does not need any additional U.S. taxpayer funds to accomplish its mission and accomplish its role.

Third, the reforms in the 2010 agreement are a step forward. They are positive. No disagreement there. But they don't go far enough.

Even with those reforms—and consider that they were made 4 years ago. We have had the euro crisis since then. There has been a lot of change in the world—the Ukrainian issue, all of these other changes that have happened just in these last 4 years. Even after those reforms, the IMF is still too euro-centric and still does not have enough controls to make sure that we are not encouraging countries to take on too much debt because the IMF will take care of it at some point later.

It is not that the reforms in the 2010 agreement go too far; it is that they don't go far enough. What we believe we need is more reforms and less U.S. taxpayer dollars to assure our leadership in and the role of the IMF in the future. I look forward to discussing this further in our questions.

Thank you.

Chairman HENSARLING. The Chair now recognizes the gentleman from Minnesota, Mr. Ellison, for 1 minute.

Mr. ELLISON. Thank you, Chairman Hensarling, and Ranking Member Waters.

And welcome back to the committee, Secretary Lew.

I regret that I have to leave early today. A dear friend of mine, and of this whole country, has gone to his reward, and so I am going to go attend Congressman Oberstar's services.

But I just wanted to say that I am committed to preserving and expanding the remittances lifeline to Somalia. I want to continue to enlist the Treasury Department in seeking solutions to improve the lives of all people abroad who need and rely on remittances from our country. And together I think we can make Somalia—and other countries—a stronger nation, a more secure nation, and a better partner for the United States by improving the flow of remittances and providing technical assistance to help Somalia set up a world-class banking system that will withstand scrutiny and can push away terrorist financing.

On Tuesday, we passed the Money Remittances Improvement Act. That is great. And the language of the bill granted authority that the Treasury sought, and so thank you.

That is all I have today. Farewell.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Missouri, Mr. Clay, the ranking member of our Monetary Policy and Trade Subcommittee, for 3 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

And thank you, Secretary Lew, for your attendance today.

The IMF was created post-World War II at the Bretton Woods Conference. The goal of the IMF is to create a cooperative and institutional framework for the global economy that would facilitate international trade and balance global economics to build and grow.

The Bretton Wood Act required congressional authorization to change the U.S. quota of shares in the fund or for the United States to vote to amend the articles of agreement of the IMF or the World Bank. Thus Congress has veto power over major decisions of both institutions. In regards to voting power, the United States is the only country able to unilaterally veto major IMF decisions.

Recently, Congress passed the Ukraine bill, which provides close to $1 billion in guarantees, and imposes sanctions on Russia.

As stated to you this past December, an earthquake devastated Haiti on January the 13, 2010, leaving millions homeless. In the wake of the disaster the American people and the global community rallied to provide relief to the Haitian people. As the Center for Economic and Policy Research points out in a report, despite billions of dollars pledged to build back a better Haiti, more than 350,000 Haitians remain internally displaced and it is unclear what sustainable impact our funds have had.

Mr. Secretary, can you give members of this committee a progress report? You stated to me and this committee that you would, and as of today this committee has not received this information.

One problem that the IMF faces with the American public is perception. Most Americans ask, "Why should the U.S. Government spend money on the IMF?" after looking at the current situation in Haiti. Most Americans believe if the U.S. Government, through the IMF, cannot get it right in Haiti, which is a few hundred miles from the coast of Florida, how can they get it right in Ukraine, which is on the other side of the world?

Mr. Secretary, I am looking for answers and hopefully you can provide them today. We wrote you and inquired about this in December and have not heard back from you, so I am looking for your response.

Thank you very much.

I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back.

Today, we welcome the Honorable Jacob Lew, U.S. Secretary of the Treasury, to our committee today. He has previously, as you know, testified before our committee, so I believe he needs no further introduction.

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

Mr. Secretary, I would request that you give a brief presentation orally of your written testimony, given the limitation of your scheduling.

Again, Mr. Secretary, welcome. You are now recognized for your statement.

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

Secretary LEW. Chairman Hensarling, Ranking Member Waters, and members of the committee, thank you for the opportunity to testify today. I appreciate your cooperation in rescheduling this hearing, and I will keep my opening remarks brief to permit maximum time for questions.

Because of the grit and determination of the American people, the United States economy has experienced nearly 5 years of growth. Our businesses have created 9.2 million jobs over the last 50 months. Our deficits have also been cut by more than half.

Still, we need to keep our focus on actions that can help accelerate growth, create jobs, and expand opportunity, as last week's advanced report of GDP showed.

One of the most cost-effective ways to confront our economic challenges is with our investments in the international financial institutions. These institutions, which include the International Monetary Fund and the multilateral development banks, promote a more stable global economy while also protecting our national security and advancing our values and interests around the world.

The World Bank and other multilateral development banks are critical to our economy, and the testimony I submitted lays out in detail how they help unlock export markets, foster opportunities for American businesses, and create jobs in the United States. Yet, given the heightened attention on Europe right now, I am going to use the remainder of my time to talk about what is happening in Ukraine and the significance of the International Monetary Fund.

I know everyone here wants to do everything possible to address the crisis in Ukraine, and we have taken significant steps unilaterally and with our international partners to promote stability, especially with the Ukrainian elections happening later this month.

As part of our response, we have coordinated a global effort to impose serious economic costs on Russia and hold accountable those who have violated Ukraine's sovereignty and territorial integrity.

As President Putin has admitted, our sanctions have caused additional damage to Russia's already weak economy. Consider that the ruble has fallen to near all-time lows, Russian stocks this year have dropped significantly, and investors are fleeing Russian markets.

The IMF forecasts that $100 billion in investment will exit Russia this year, and Russia has already slipped into recession. At the same time, Russian companies are finding it harder to get capital, and Russia's credit rating was recently downgraded to just above junk status.

Our strategy has been to move in a systematic and targeted way, and we urge Russia to pursue a diplomatic solution to this situation. Should Russia continue its unlawful and provocative acts, we have a range of tools at our disposal including sanctions that would target companies in certain important sectors of the Russian economy.

Now as we stand with the Ukrainian people during this critical time, it is essential that Congress pass the 2010 IMF quota reforms. The $1 billion in loan guarantees that we are providing Ukraine is an important step, but our bilateral assistance, while important, is not enough. The IMF approved a very important assistance program for Ukraine just last week, and only the IMF has the capacity to provide the full sweep of financial and technical support that Ukraine requires and will continue to require for the foreseeable future.

The IMF is the world's first responder in a crisis of this kind and is the one institution with a proven track record of helping countries like Ukraine implement market-based restructuring and restore growth.

Prominent business leaders, Members of Congress, and former senior Administration officials of both parties have affirmed that passage of the 2010 IMF quota reforms is critical to the United States. Blocking these reforms threatens our leadership position in the IMF and undermines our international credibility.

Passing them, though, is a win-win for the United States. These reforms do not require us to commit one new dollar to the IMF, and they will allow us to maintain our strong influence within this institution.

At this time of geopolitical uncertainty, it is critical that we continue to demonstrate our longstanding bipartisan commitment to American leadership in the world and the important role that the IMF plays in containing economic crises.

With that, let me thank you for the opportunity to appear before you today, and I look forward to answering your questions.

[The prepared statement of Secretary Lew can be found on page 46 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

The Chair yields himself 5 minutes for questions. I want to start off my line of questioning dealing with the Financial Stability Oversight Council (FSOC) and its interaction with the G-20's Financial Stability Board. There is bipartisan concern about the—if you will, the who, what, where, when, and why of designating nonbank financial institutions as systemically important financial institutions (SIFIs), which, as you know, can have huge, not just domestic but global, implications for the financial system and the economy.

So, Treasury is one of the members of the G-20's Financial Stability Board, which has designated at least three U.S. insurance companies now as global SIFIs: MetLife; Prudential; and AIG. Correct?

Secretary LEW. That is correct.

Chairman HENSARLING. And as part of that process, did Treasury approve of that global SIFI designation?

Secretary LEW. Mr. Chairman, I think it is important to put the FSB and FSOC responsibilities in context.

Chairman HENSARLING. Mr. Secretary, again, I am happy to give you time to give the context, but could we get the answer first and then the context? Because sometimes I fear I get the context; I don't get the answer—

Secretary LEW. Mr. Chairman, the FSB is a group that acts by consensus, and it does not make rules for any of the national governments. Each of our national authorities makes our own rules, and only the FSOC can designate with the effect of that designation having real meaning in terms of what happens afterwards.

Chairman HENSARLING. Allow me to ask it this way then: Did Treasury consent in the designations?

Secretary LEW. Mr. Chairman, the process is a consensual process. Ever country has its own ability to make its own decisions for itself.

Chairman HENSARLING. I understand that, Mr. Secretary.

Secretary LEW. And the process—

Chairman HENSARLING. So is the answer yes, that Treasury consented, or did Treasury object?

Secretary LEW. Mr. Chairman, what I am—the point I am trying to make is that the designation that has an effect is the FSOC designation. We have not made a determination with regard to one of the companies—

Chairman HENSARLING. I understand that.

Secretary LEW. —with regard to others. Any decision that we make will be guided by the process in the FSOC, where we consider very carefully all the evidence, and ultimately, the case made by each firm.

Chairman HENSARLING. Let me try it one more time: Did Treasury consent or object to the designation by the Financial Stability Board of designating AIG, MetLife, and Prudential as global SIFIs?

Secretary LEW. Mr. Chairman, it is not a vote; it is a consensus decision made in the FSB.

Chairman HENSARLING. I sense, Mr. Secretary, we are just not going to see eye-to-eye—

Secretary LEW. Yes, I—

Chairman HENSARLING. —on what an answer to a question is—

Secretary LEW. I think the real—

Chairman HENSARLING. —but let me move on with the limited time that I have.

Secretary LEW. But if I could just—

Chairman HENSARLING. Please.

Secretary LEW. —make one other point, Mr. Chairman.

The process by which these designations are made is one where FSOC goes through very substantial analysis. It is never the case that you start with a decision. You always make a decision based on the analysis of facts, and a firm has the ability to—

Chairman HENSARLING. I understand that, Mr. Secretary. I am just trying to figure out what Treasury's decision was, and you seemingly—

Secretary LEW. We have not—

Chairman HENSARLING. —won't tell us.

Secretary LEW. —made an FSOC decision.

Chairman HENSARLING. I guess de facto, there was consent. But I don't understand why it is so difficult to admit it in open testimony if that is what happened.

Secretary LEW. The place where Treasury will make a decision on whether or not to designate a firm is in the FSOC.

Chairman HENSARLING. Okay, well the question is, then, to what extent is FSOC following the lead or the direction of the Financial Stability Board, since shortly after participating in the Financial Stability Board's proceedings, FSOC designated at least two of the nonbank insurance companies as SIFIs, correct?

Secretary LEW. Those processes were well under way at FSOC at that point. They were made independent of the decision made at the FSB based on the analysis in—

Chairman HENSARLING. How are they independent if you have already sat through one set of proceedings? So you are saying that one set of proceedings had nothing to do with the other set of proceedings?

Secretary LEW. The decisions made at the Financial—the FSB do not require that a national authority take an action.

Chairman HENSARLING. No, I understand that, Mr. Secretary.

Secretary LEW. And what they do—what I was going to do by putting it in context is, in response to the financial crisis, what the FSB has become is a place where an international conversation can take place to try and put model approaches that lead us closer to doing the right thing—

Chairman HENSARLING. I understand that, Mr. Secretary.

Your time is limited and my time is limited at the moment, so let me just end with this statement. There is increasing, again, bipartisan concern about the immense discretionary power that FSOC has, and frankly, how little transparency it has, notwithstanding the actions taken yesterday. It has an incredible ability to take these nonbank institutions and effectively put them into a bailout position with very little transparency, with very little indication of the methodology used by which to make these decisions and adjudications.

As you well know, we will have you back next month. We will have another hearing next month on this process. I would simply call upon you, as head of FSOC, to cease and desist with these designations until all of our questions can be answered fully and Congress can exercise its oversight authority over this incredible process.

Secretary LEW. Well—

Chairman HENSARLING. With that, I yield 5 minutes to the ranking member.

Secretary LEW. Mr. Chairman, if I may, on the question of FSOC, which we will have more of an opportunity to discuss, I think it is important to know that the statute set it up for a purpose and FSOC is carrying out a statutory responsibility. And it does it with great care and great—and a process that I think has great integrity.

Chairman HENSARLING. And very little transparency.

Five minutes to the ranking member?

Ms. WATERS. Thank you very much.

Mr. Secretary, I really want to talk about two things here. First of all, in your testimony you did hit on a point that many of us here on our side of the aisle are particularly concerned about. Specifically, you noted that despite the growth in corporate profits, and all-time highs in the stock market, the poor and the middle class continue to struggle to make ends meet.

Could you expand a bit on your role in promoting opportunities for entrepreneurship and small business? What is Treasury's role in promoting ladders of opportunity? And what can Congress do to help you to be more effective in that mission?

And in answering that question, could you talk a little bit about the Small Business Access to Capital Act? I have co-sponsored that with Gary Peters. This would help to create opportunities for small businesses by granting them access to capital they need to grow their businesses. I know there is some activity over in the Treasury. Could you help me out a little bit on that?

Secretary LEW. Congresswoman, we obviously worry at large about the state of the economy, because growth in the economy has everything to do with how small businesses and—and middle-class families will do. But with specific regard to small business, there are a number of programs at Treasury that I think have been enormously helpful, and they range from the New Markets Tax Credit to the CDFI programs to the States Small Business Investment Initiative.

I think if you look at these programs—and when I was in Detroit I got a chance to see each of these programs, the results that we were having. It was very important to actually see what is happening with these programs.

The SSBCI program—there is a parts manufacturing plant in Detroit which is making factory replacement parts for U.S. auto manufacturers. Those parts would not be manufactured in the United States, probably, if there had not been the assistance from SSBCI to get the kind of financing necessary to take a plant that would have been a vacant and—a property that was an eyesore and turn it into 200 local jobs.

So I think the act that you are describing that you have co-sponsored would reauthorize SSBCI, and we would look forward to working with you and the Congress to finding a path towards continuing to invest in economic growth that is generated by small businesses in urban and rural areas.

Ms. WATERS. I am very appreciative of that.

And I will be in contact with you about the New Markets Tax Credits. I think there needs to be a little reform there. We have so many of the bigger organizations or companies or businesses that are having the advantage of the program, but we have a lot of other community organizations that want to get more involved. So, we will talk about that more.

This gives me an opportunity now to talk about servicing. I understand that the Financial Stability Oversight Council's annual report, which came out yesterday, identified market servicing—in particular, nonbank market servicing—as an emerging issue that we should all be paying a close attention to.

On the issue of nonbank services, the report notes that market servicing rights are increasingly being transferred to these companies. While the Consumer Financial Protection Bureau (CFPB) servicing rules apply to these companies with regard to consumer protection, many of these companies are not subject to prudential standards such as capital, liquidity, or risk management.

Now, I am paying attention to this because in the subprime meltdown—and doing loan modifications I learned an awful lot about the services. I learned that many of them were not well-trained; I learned that many of them were involved in ways that they could benefit from having second liens themselves; on and on and on.

So we are worried about this. Can you tell us what you know, what you understand about these services? And should we be paying attention to this report that just came out?

Secretary LEW. Congresswoman, the reason that we highlighted it in the FSOC annual report is it is an area that we think warrants more attention. The CFPB plays a very important role in terms of the consumer protection aspect of it, but as unregulated entities, the questions that you pointed to in terms of capital, liquidity, and servicing capacity are very important.

Our mortgage system only works well when payments are made and credited properly and the system flows. If that function were to break down in any way, it would wreak havoc with the mortgage system.

We didn't put it in the report because we think that it is today a burning crisis; we put it in because the job of FSOC is to look ahead at what are the problems that could emerge. This is one of the areas which we think warrants additional attention. And I think it is one of the really sensible things about FSOC, which is that it is not made to ask what happened in the last crisis, but what are the things we should be worrying about as we look forward.

Ms. WATERS. Thank you. Servicing is an extremely important issue. Thank you.

I yield back.

Chairman HENSARLING. The time of the gentlelady has expired.

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

Mr. CAMPBELL. Thank you, Mr. Chairman.

Back to international affairs, if we may, let's start at the point of agreement. IMF is important. The United States' leadership in it is important. Agreed?

Secretary LEW. I think we agree on that.

Mr. CAMPBELL. Okay.

Secretary LEW. I hope we agree on that.

Mr. CAMPBELL. All right. Very good.

So, let's get to the matter of the two places where we disagree, the first being the matter of how much capital the IMF needs to perform their function and how much additional U.S. taxpayer money. Now if I can put this in some perspective for you, one of the things that we will all be struggling with later this summer—and the Administration as well—is the bankruptcy or lack of cash running out of the transportation fund.

And we could bring this money back. I understand it is scored as an investment, so if—and I understand—$100 billion went in there in 2009. We can't get all $100 billion back because some of that money has been permanently deployed, but we can get $50 billion or $60 billion or so back, and it would score at something, which arguably we could use to help with this rather difficult situation that we are facing this summer.

Are you open to discussing something different than the agreement that was made in 2010 in terms of the United States' financial commitment to the IMF—or additional financial commitment?

Secretary LEW. Congressman, I don't think we get to unilaterally decide to reopen the 2010 agreement. The 2010 agreement is an international agreement. If we walk away from it, it falls apart and there is no agreement. So it leaves the IMF in a place where it has no ability to address the reform issues or to recapitalize the quota system.

I actually don't agree with your characterization of there being sufficient resources in the IMF if you were to withdraw the new arrangement to borrow monies. Right now, the way the IMF is planning to deal with a crisis, were a crisis to develop, would be to use both the quota and the NAB. We saw in 2008–2009 how quickly resources get called into play.

I actually don't think that if we and other countries withdrew from the new arrangements to borrow and the quota reform is not enacted that the IMF would be properly funded to deal with a crisis.

So I think that is a fundamental difference in terms of what the need is.

Mr. CAMPBELL. And on your second point, that is a legitimate disagreement. You don't know. Nobody can know for sure how much more they might need or what crisis would occur.

And of course, the IMF is not the only international entity; it is not the only one supporting Ukraine; it is not the only one out there that is available. So, granted. That is simply a disagreement as to whether additional U.S. taxpayer money—given all the limitations we have on that these days—is best deployed in that way.

To your first point that you made though, I agree, if we walk away from the 2010 deal it falls apart and there is no deal, but we can make a new deal, can't we?

Secretary LEW. The 2010 agreement was worked on for many years between two Administrations. It reflected a compromise where the United States maintained its position and Europe essentially gave up share so emerging markets could have a growing share. It preserved our veto power and our leadership role in the institution.

I think it is a good deal for the United States. I think it is a good deal for the IMF. I think opening it up creates an enormous amount of uncertainty.

And I actually think the point you just made about there are other institutions, I don't think there is another institution. There is no other institution that could have provided almost $18 billion of support for Ukraine in the time that the IMF did.

And that will be the foundation for Ukraine having an economically viable future and a politically stable one.

Mr. CAMPBELL. My only point is that the E.U. came in with money. We came in with money directly.

Secretary LEW. But it is all built on the IMF.

Mr. CAMPBELL. There were other—no, I am not disagreeing with that. I am just saying that it doesn't have to be 100 percent of all that goes in there.

Going back to the reforms, because I have less than a minute here, do you agree with me—or with us up here—that ideally we would like those reforms to go farther than they did?

Secretary LEW. I think that the world—you made the point in your opening remarks that the world has changed since 2010. I hear that from a lot of countries in the world who say that since 2010, they have issues they would like to address.

The problem is if you were to go back and address those issues now, I don't know that it would get resolved in a way that is as constructive as 2010. It would take a very long time. And the 2010 agreement was a good step.

Mr. CAMPBELL. I hate to cut you off, but in my last 10 seconds, I would just like to leave you with this thought. We have been at odds on this thing. We don't have to be at odds. I think it would be more constructive if we had conversations rather than just throw things at each other over a wall.

Secretary LEW. I agree with that. You and I have had good conversations in private on this. I have talked to dozens of Members of the House and the Senate on this, and I will continue to make myself available for those conversations any time.

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

Mr. CLAY. Thank you, Mr. Chairman.

And, Mr. Secretary, I have just received a letter from Assistant Secretary Fitzpayne in response to our inquiry, a letter dated April 9th and I am just seeing it. But I have noticed that the U.S. contribution of $120 million to the Haiti reconstruction fund, and that deals with housing reconstruction, rubble removal, and education. Do you have anything else you can update us on as far as progress?

Secretary LEW. Congressman, we did respond, as you noted. I would be happy to go back and get a more detailed response. I think the history of providing assistance in Haiti has been very challenging, not just in response this round but in previous rounds.

It is something that we have put an awful lot of effort into trying to make sure that the assistance we provide and that is provided through international financial institutions builds a foundation for a sustainable future for Haiti. But Haiti is a very, very difficult challenge.

I think it is hard to compare countries. Haiti has a lot of unique characteristics. We very much want that money to be used well and to leave Haiti with a stable future. We look forward to working with you to go through the analysis of that.

Mr. CLAY. Thank you so much.

Let's shift to the Ukraine. There is a perception that quite a few of our European partners rely on imports of fuel and natural gas from Russia. Talk about the effectiveness of strategy by targeting the inner circle of billionaires close to Vladimir Putin and what kind of impact that has had.

Secretary LEW. Congressman, our strategy from the start has been to make clear that we were going to take decisive action. It would be action that they felt and that it would be indicative of our willingness to go further down that path should we need to.

The sanctions that we have put in place have targeted people in the Russian government, some of the largest business executives in Russia, a bank that is the bank that many of these people who are close to the president of Russia bank at. And it has gotten their attention.

I think that we see many indications that they are very concerned about the sanctions, that it is hurting their economy. The thing about sanctions that I always say, regardless of country, is sanctions do not change the policies of another country; sanctions create an environment where leaders understand the consequences that if they fail to change their policies, their country is going to be hurt.

And I think that we have succeeded in that, and part of the reason we have succeeded is the resolve we have shown. The President has put in place an Executive Order that makes very clear that we have more tools at our disposal.

I think our cooperation with the European allies is very important. If we act alone in the world, it doesn't have the same effect. If we sanction a company and somebody from another country comes in and does business with it, then that is back-filling the activity that we have shut down.

So it is very important to cooperate on international lines. We are working with the G-7, with our European allies, and we—I do it with my counterparts at the finance minister level; the President does it with leaders; the Secretary of State does it with foreign ministers.

I think we are making progress. I think the meetings that the President and Chancellor Merkel had last Friday reflected that, as did their public statements.

Mr. CLAY. About the $1 billion loan guarantee agreement, how will the loan guarantee help return Ukraine to a path of economic recovery?

Secretary LEW. The package that the IMF put in place, which, as you know, is close to $18 billion, is going to create challenges in the Ukrainian economy. It is going to raise gas prices; it is going to result in a weaker exchange rate.

The burden needs to be borne by those who can afford to bear it, and the billion dollar loan guarantee in large part will be used to make sure that those who really can't bear the burden have some recourse.

As a matter of preserving political stability, that is very important. It is one thing to tell a company that can use gas more efficiently that it is going to be paying more for gas; it is another thing to tell families to shut off the heat in a cold winter.

So I think our loan guarantee is a very important piece that fits in. And, the IMF is sometimes in a position where it imposes conditions that are quite difficult. The loan guarantee is meant to put some real funding behind easing some of the burden on the most vulnerable people in Ukraine.

Mr. CLAY. Thank you, Mr. Secretary, for your response.

Mr. Chairman, I yield back.

Chairman HENSARLING. The Chair now recognizes the gentlelady from West Virginia, the Chair of our Financial Institutions Subcommittee, Mrs. Capito, for 5 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for returning to the committee. You might recall that the last time you were here, in December, the two of us had a brief conversation about the guidance on the financing of coal plants by MDBs, and today I have some specific questions about that guidance.

Mr. Upton and Mr. Whitfield wrote to you to gather additional background information about how the guidance was developed, and I would like to ask unanimous consent to insert the letter to Secretary Lew from the two Representatives into the record.

Chairman HENSARLING. Without objection, it is so ordered.

Mrs. CAPITO. Yes. I believe they sent this nearly 5 months ago, and to this date they have not received a response from you.

I have a couple of questions. Countries other than the United States provide support for coal-fired power plants overseas. For instance, China's export-import bank recently made a $1 billion investment in a Serbian coal plant. In many cases, don't you feel that the financing from developing countries or development banks in countries like China simply replace our U.S. financing and cause developing countries to use the Chinese coal technologies and equipment, et cetera, rather than coal technology made in the United States?

Secretary LEW. Congresswoman, we obviously have been working with our international partners to fashion an approach to energy in developing countries where we promote resources that will not contribute to the climate problems that we have. We have not made it a uniform approach. For the poorest countries, we continue to have an exception for coal facilities—

Mrs. CAPITO. Have you done that? Have these MDBs participated in the financing of coal plants in the poor countries, to your knowledge?

Secretary LEW. I would have to check what the approvals have been, but I know our position is that for the very poorest countries, we would support them.

I would say that the MDBs have supported some coal projects that we absented ourselves from voting on, for example in Pakistan. So, there has been approval of coal projects.

I think the challenge we have in part is, how do we put technologies in place that are truly sustainable in those environments. It is actually not very likely that many of the poor countries would be buying lots of coal from the United States. That is not where they are—we are not selling a lot of coal to developing countries.

You asked the question about technologies, and I think that is actually the more relevant issue.

Mrs. CAPITO. Right.

Secretary LEW. We have a lot of technologies that we think ought to be in the mix of what they are buying, and we very much would like the mix of technologies to be one that both promotes access of U.S. companies to sell technology, but also clean and sustainable energy resources.

Mrs. CAPITO. I think the concern is that we are dis-incenting our American technology to go around the world, and we are requiring CCS and things that are really unobtainable, particularly in an economic model.

Let me ask you another question in this vein. What other Federal agencies did Treasury talk to, to develop this guidance? Was it EPA? Did you talk to Nettle in Morgantown, West Virginia, where they are doing a lot of the development of these technologies? What kind of other folks weighed in on this?

Secretary LEW. There was an interagency discussion. I would have to go back and check with the participants—

Mrs. CAPITO. Okay. I think that is part of the questions the two Congressmen have asked that I would like to get an answer to.

I am going to shift gears here quickly. As Chair of the Financial Institutions Subcommittee, we have obviously spent a lot of time trying to protect and work with our community banks and credit unions to not put them in this one-size-fits-all.

What kind of consideration, when you are going out into the international regulatory arena, are you giving to make sure that we are not bringing regulations from an international regime into our country that has a totally different banking system, that we are asking some folks to change their business models—insurance companies is another example—that really doesn't fit into this model? What can you tell them about that—tell us?

Secretary LEW. Congresswoman, what I tell them is that we have taken great care—Congress has taken great care as it has written its laws and regulators have taken great care as they have implemented them to make sure that they don't have a one-size-fits-all approach, that they treat community banks, where appropriate, differently, and they have been exempted from many rules and have special provisions put in that reflect their economic realities.

I actually make the case in international meetings that we have a banking system that reaches out to all parts of our economy and actually makes capital available in communities to small businesses in a way that they don't. So, I use our system as something of an example, because there is a real problem in Europe, for example, with access to capital by small businesses.

Mrs. CAPITO. Well, we need to preserve that.

Secretary LEW. We do.

Mrs. CAPITO. And I appreciate your comments. Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentlelady from New York, Mrs. Maloney, the ranking member of our Capital Market Subcommittee.

Mrs. MALONEY. Welcome, Secretary Lew. I want to ask you about the current report on terrorism risk insurance from the President's working group on financial markets, which you chair.

The report found that TRIA has been a resounding success since it was enacted in 2002. It has ensured that terrorism risk insurance is available and has kept prices steady and affordable.

But the report also contains some troubling information. It found that, "the market currently is tightening in light of uncertainty as to whether TRIA will be renewed."

Based on this, would you say that Congress' and this committee's failure to swiftly reauthorize TRIA is actually harming the American economy by driving up insurance prices unnecessarily?

Secretary LEW. Congresswoman, we strongly support the reauthorization of TRIA, and we think the sooner the better. The market has changed since the attack on the World Trade Center gave rise to the need for a program like this, but it hasn't completely healed.

And I think it is a real problem if there is not an extension of TRIA, and in our largest, most populated areas, institutions start having challenges getting terrorism insurance. At the time when it was put into effect, I had firsthand knowledge of what it meant to try to get terrorism insurance. I worked as chief operating officer for New York's largest employer, and we didn't have access to private insurance at the time. It was very scary.

So I think it is important. We have to work together on this. We have to do it in a way that reflects the changes in the market. And I think the sooner we have that conversation to work on a bipartisan way to get it enacted, the better.

Mrs. MALONEY. As we all know, and I am sure you know, too, it is very rare that Congress passes a bill that does exactly what it is supposed to do and doesn't cost the taxpayers one cent. But that is exactly what happened with the passage of TRIA, and it has been successful for over a decade.

So my question is, based on the report from the President's working group, do you think it is wise to make any dramatic changes in TRIA?

Secretary LEW. Congresswoman, I think that reauthorizing is critically important. And we should look at whether or not changes can be agreed to that are appropriate, but reauthorizing it is the critical issue. And we have made clear we want to work together on that.

Mrs. MALONEY. Does the private market have the capacity to step in if the government exits the terrorism risk insurance market?

Secretary LEW. I think, as our report indicated, we don't think that the private market would be able to fully meet the needs and there would be an issue of the price. It is obviously not exactly the same situation we had in 2001, but the need is still there. And that is why reauthorization is so important.

Mrs. MALONEY. And obviously if, God forbid, we have another attack, the government will respond and be as helpful as possible. Wouldn't you say that it makes all the sense in the world to have this framework in place in the event that you do have it?

Secretary LEW. I think it is better to anticipate and insure against risks than it is to just wait until something happens and then there is no one, other than the government, who can step in.

Mrs. MALONEY. Do you think increasing the trigger for that government backstop in TRIA will force small and medium-sized insurers out of the market entirely, ultimately increasing the cost to government?

Secretary LEW. The question of the trigger is one that I would be happy to look at in detail. Obviously, the existing program has worked well. Whether or not there is any room there is something that I would have to examine.

Mrs. MALONEY. And in terms of the reauthorization, do you think that reauthorizing the program for 3 years will provide enough certainty for the markets? Most of us have supported legislation for 5 years or 10 years. What do you think about the idea of just 3 years for the TRIA reauthorization?

Secretary LEW. In general, you hear from the business community certainty is just critical to their comfort in making investment decisions, so I think more certainty is better than less. But reauthorization is better than expiration. So, it is a conversation that I think we all ought to have.

Mrs. MALONEY. Thank you for your testimony.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, Chair of our Capital Markets Subcommittee.

Mr. GARRETT. Thanks. I didn't hear the Secretary's schedule. You are here today for about 2 hours, is that correct?

Secretary LEW. That is correct.

Mr. GARRETT. Yes. And did I hear—are you scheduled to be with us next week?

Secretary LEW. Our offices are working on—

Mr. GARRETT. But are you scheduled here next week?

Secretary LEW. I think our offices are working on finding a time that is—

Mr. GARRETT. All right. I was hoping that I could get a "no," so I could lay the foundation to actually get a yes-or-no answer out of you, but even on a simple question like that, I guess I can't. So let's go on to the substantive questions.

Secretary LEW. I don't believe next week is one of the options, but—

Mr. GARRETT. Right. Let's go on to the substance.

FSB, in their press release, says that they made the designations that the chairman talked about in consultation with IAFIS and national authorities. Yes-or-no question: Are you the national authority that they consulted with?

Secretary LEW. There are a number of U.S. representatives on the FSB.

Mr. GARRETT. And are you the national authority that they consulted with on this issue?

Secretary LEW. I am trying to answer your question. There are multiple U.S. authorities—

Mr. GARRETT. Who are they?

Secretary LEW. It is the Federal Reserve Board and the SEC—yes, the Federal Reserve Board and the SEC.

Mr. GARRETT. Okay. So they did this in consultation—and your word was there was a consensus—was there a vote taken by all the authorities—U.S. authorities? Because it is the—

Secretary LEW. Typically, the FSB is not a body that votes, so that is why—when a body acts by consensus it usually—

Mr. GARRETT. When a body works by consensus, it says—has the people in the room and says, "Let's see where everybody stands on it." So did the U.S. authorities all agree with this position? Did they say where they—did you indicate where you felt on this position?

Secretary LEW. Look, I expressed my views on these matters in FSOC meetings.

Mr. GARRETT. I am asking here, did you give your position on this, and did each of the other U.S. authorities give their position on the insurers? That is a yes-or-no question.

Secretary LEW. Congressman, it is not really a yes-or-no question, because the—

Mr. GARRETT. You did not give your opinion?

Secretary LEW. We have representatives who participate in the FSB.

Mr. GARRETT. I understand that. Did you give your opinion?

Secretary LEW. The process that I—

Mr. GARRETT. Did you give your opinion? I want a yes or a no.

Secretary LEW. I am trying to answer your question, Congressman. The process—

Mr. GARRETT. Would you please give me a yes or a no? You could tell us how many hours you are going to be here. Can you tell me whether you gave your opinion on whether these should be globally—

Secretary LEW. Congressman, I expressed my views on these matters in the FSOC.

Mr. GARRETT. So the answer is yes. Okay.

Secretary LEW. I have never relinquished my ability to make decisions to anybody other than FSOC.

Mr. GARRETT. Thank you. So the answer is yes, you gave your opinion. Did the other U.S. authorities give their opinion?

Secretary LEW. You will have to ask the other authorities.

Mr. GARRETT. So was it the consensus of the U.S. authorities—did you agree that this was the correct decision by the—

Secretary LEW. Congressman, I understand you are trying to ask yes-or-no questions, but to maybe answer your question, if you will just give me the ability to give—

Mr. GARRETT. I would love to do that in writing or in meetings. But you have not returned my phone calls and you have not agreed to a meeting with me, so I am doing it here.

Are you the national authority on the areas dealing with asset management? Would you be the authority in that area or would that be the SEC?

Secretary LEW. Congressman, the—

Mr. GARRETT. Yes?

Secretary LEW. FSOC is now looking at questions regarding asset management. The regulatory body that has principal regulatory jurisdiction over asset managers is in many cases the SEC, but there are aspects of it regulated by other agencies as well.

Mr. GARRETT. So would they be the authority that would be responsible in this matter?

Secretary LEW. U.S. regulatory bodies do not make their decisions in international group.

Mr. GARRETT. If they don't, who does?

Secretary LEW. The FSB is not making U.S. policy. It is—

Mr. GARRETT. I am asking a simple question. As far as the decisions at FSB that the U.S. regulators are present at, that you have already identified, will you be the authority in this area? Will all three of you have to agree? Will the SEC have the authority to make this decision?

Who makes these decisions? If we don't know, then maybe we should have legislation directing this, if you can't give us a yes-or-no answer.

Secretary LEW. Congressman, I would be happy to speak to you about how the FSB works and the important function it plays.

Mr. GARRETT. Would you be happy to also give us the criteria that the FSB and the FSOC use in their criteria decision-making, as well?

Secretary LEW. The FSOC has worked in a very systematic way.

Mr. GARRETT. Would you be willing to give us the criteria for—by FSB and by FSOC? That is a yes-or-no question.

Secretary LEW. FSOC has published on its Web site a lot of information about designations made—

Mr. GARRETT. They have a lot of information.

Secretary LEW. Yes.

Mr. GARRETT. They have not indicated what their criteria is. So would you be willing to say here and now that for both FSB and for FSOC that you would identify specifically what the criteria is? And if not, why not?

Secretary LEW. Congressman, we have indicated the basis for our judgments in FSOC where we have made designations, and as I have said a number of times, the FSB—

Mr. GARRETT. Would you be willing to allow Members of Congress to appear and attend these FSOC meetings, closed meetings?

Secretary LEW. That is a separate question.

Mr. GARRETT. It is the next question. Very good.

Secretary LEW. I have 1 second. I am happy to answer your question—

Mr. GARRETT. Would you allow Members of Congress to come into closed meetings? If not, why not?

Chairman HENSARLING. Brief answer, if possible.

Secretary LEW. The FSOC process is one that balances carefully the important issues of transparency with the need to deal with issues that are regulatory matters where proprietary and confidential information and supervisory information is discussed. We work very hard to create a way of balancing that and I look forward to working with you on it.

Mr. GARRETT. Is that a yes or a no?

Secretary LEW. I don't think open FSOC meetings are the—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Ms. Velazquez, for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

And welcome, Mr. Secretary.

U.S. participation in the IMF advances many of our interests overseas, notably developing foreign markets for small business exports. Can you please elaborate on how our continued support of the IMF helps our economy and small businesses create jobs? And I do not want a yes-or-no answer.

Secretary LEW. Thank you.

Congresswoman, if you look at where the demand in the world is, it is mostly outside of the United States. Europe is the largest export market. At a time when the IMF stepped in during the financial crisis to make sure that Europe didn't just continue to just careen into a depression, that meant that there would be demand for U.S. products.

And it is not one-to-one. You can't say that if the economy avoids depression business X, then business Y or Z gets a certain amount of business. But we know the aggregate, U.S. exports are higher and small businesses are a big part of that.

So I think that the United States has both economic and national security reasons that the IMF is just of critical importance. And our leadership in the world is very much compromised when we don't keep our commitments like the 2010 reforms, or we make a situation where the world is looking at the United States as the obstacle to moving into a more secure place.

Ms. VELAZQUEZ. Thank you.

Secretary LEW. Just in the case of Ukraine, we pushed very hard for the kind of package that the IMF ended up putting in place. I am proud of the fact that we succeeded, but I can tell you, it was harder because we are the one country that is standing in the way of the IMF reforms.

Ms. VELAZQUEZ. Thank you.

Mr. Secretary, the United States continues to negotiate with its 11 partners in terms of the Trans-Pacific Partnership trade agreement. As you know, the Administration has been less than forthcoming with specifics of the agreement.

Can you elaborate today on how this trade agreement will benefit U.S. small and medium-sized exporters?

Secretary LEW. Congresswoman, Ambassador Froman has been up for many meetings on the Hill and I have been up for many meetings on the Hill. We look forward to continuing to consult with Congress. Obviously, I have relatively narrow areas of responsibility of the financial sector and USTR has the broad responsibilities.

I would just point to the meetings that the President had just a few days ago in Japan, and it underscores the importance to the U.S. economy. The President was insisting that one of the things that has to happen with TPP is that Japan has to open its auto and agriculture sectors to imports. While there wasn't a final agreement, I think there was progress made there that is laying the way for an agreement which will open important markets.

Overall, I think the United States has a great interest in being part of the growing Pacific economy, and it would not serve U.S. interest if we didn't have a high-quality agreement where we got to sell our goods.

Ms. VELAZQUEZ. Can we trust that there will be safeguards in place so that small and medium-sized businesses will not be put at a disadvantage?

Secretary LEW. The theory behind TPP was a new approach to trade agreements. It was to say we are going to set a high level and only countries that are willing to abide by high standards can be part of it. So if we can get a high standards agreement, I think it will help across the board with U.S. exports, and that will help small businesses.

Ms. VELAZQUEZ. Thank you.

After we experienced our own financial crisis in 2008, this government took drastic action to stabilize the system, stimulate the economy, and enact strong new financial reforms. But some have argued that these measures have placed U.S. companies at a competitive disadvantage.

With our economy now in strengthening recovery, can we now say that the U.S. firms actually have an advantage over foreign competitors as a result of our efforts?

Secretary LEW. I think that if you look at the U.S. recovery, it has been stronger and deeper and longer than recoveries in other places because we responded with clarity and decisiveness, both in terms of our fiscal policy and in terms of financial reform. I am proud of the fact that we are leaders in driving the world to its higher standards so that we don't have a crisis like that again.

And it is important that we cooperate in international bodies where we don't relinquish our decision-making but what we do is try to drive the world to a higher standard overall so that we are not out there alone with high standards. Frankly, this is not a world where you can have your own high standards and be safe if you don't have high standards around the world.

Ms. VELAZQUEZ. Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from Texas, Mr. Neugebauer, Chair of our Housing and Insurance Subcommittee.

Mr. NEUGEBAUER. Secretary Lew, thank you for being here today.

As you know, Mr. Secretary, in the President's 2015 budget proposal, it had a section on the Terrorism Risk Insurance Act (TRIA). In that proposed section it stated that the Administration was committed to implementing reforms to limit taxpayers' exposure, achieve cost neutrality. It also went on to say that it would work to identify appropriate adjustments that would achieve a full transition to the private sector. And then finally, the section offered suggested reforms to be increasing the program trigger and the industry co-pay.

Mr. Secretary, is that pretty much the Administration's current position on TRIA?

Secretary LEW. As I was saying just a few moments ago, our position is that TRIA needs to be reauthorized and we look forward to working with Congress on a bipartisan basis to reauthorize it in a way that is effective.

Mr. NEUGEBAUER. So, Mr. Secretary, did you not have any input into the President's budget proposal under the TRIA section, since TRIA falls under your—

Secretary LEW. No. I have tried to indicate an openness to looking at either straight reauthorization—

Mr. NEUGEBAUER. Mr. Secretary, the question is did your—did Treasury have—write that part of the—I know that all of the agencies pool together as the President puts the budget together, but that comment should have originated from Treasury since you oversee TRIA, right?

Secretary LEW. The provisions in the budget reflect the Administration view. The report that we issued—

Mr. NEUGEBAUER. So the Administration view, then, is that you think we should move to, and I quote again, "transition to the private sector," and that some of the suggested reforms are to change the program trigger and the co-pay? That would be the Administration's position?

Secretary LEW. Any specific decisions we would make on provisions would have to be connected to our most current analysis of what the market conditions are, and the impact. The report that we just recently issued indicates that the market is not ready to step in and do this without an ongoing extension of TRIA.

Mr. NEUGEBAUER. But transitioning to the private sector was a part—and I quote—"achieve a full transition to the private sector." That is Treasury's decision?

Secretary LEW. Yes. But I didn't—I don't recall the timeframe. I don't know that there was a timeframe in there.

Mr. NEUGEBAUER. It says transition, and so—but you would support transition to the private sector over a period of time?

Secretary LEW. But the question of can we—could we not have TRIA and have access to insurance? We do not believe that right now the market is such that without TRIA there would be adequate access to this insurance.

Mr. NEUGEBAUER. But maybe changing the program triggers and the co-pay would be one way to transition to that?

Secretary LEW. I am happy to discuss specific issues, but I don't think any of the language you read suggests specific positions based on the current conditions of the market.

Mr. NEUGEBAUER. When was this written? What do you know now that you didn't know then?

Secretary LEW. The report that was just issued—was issued just about a week or 2 ago is the most current analysis. And we would look forward to working on a bipartisan basis to reauthorize TRIA and we would be open to ideas that are consistent with the policy that we have set forth. But not having a reauthorization or having a reauthorization that doesn't permit market access would be a bad thing.

Mr. NEUGEBAUER. I want to go back to another issue that some of my colleagues have been talking about, but in a little bit different perspective. I know that they have been talking about the Financial Stability Board's role and your interaction and maybe the Fed's interaction on the designation of GISIs. But as you also know, the Financial Stability Board has directed the International Association of Insurance Supervisors (IAIS) to come up with capital standards for internationally active insurers, and this would impact about 40 of our domestic companies.

I think the real question that we have here and the reason, Mr. Secretary, that you are getting a lot of questions here is, I think there is a lot of concern, both from Members of Congress and the industry, that who is representing the U.S. interests at the table? And if you acquiesce and say you support some of the things that this Financial Stability Board is proposing and some of these international agencies begin to adopt these standards, it could impact the competitiveness of U.S. companies.

And I think what we want to hear is that you are not saying with a wink and a nod to the Financial Stability Board, "Hey, we support these ideas." I think a lot of folks are concerned that the U.S. regulatory structure is adequate and that the insurance industry did probably did as well as any financial industry during the downturn.

Secretary LEW. Congressman, I have tried to make it clear that any designation of U.S. firms will be made in FSOC by a process that is very thorough and listens carefully to the concerns raised by U.S. firms. I do think there is real benefit to the FSB looking at issues on a global international basis to have standards where other countries are lifting their standards as well. We have never delegated our ability to be the supervisors of our own firms.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. SHERMAN. A couple of observations: These standards we are negotiating for are published standards. Our Asian competitors are experts in unpublished and sub rosa obstacles that our small businesses simply can't deal with.

And also, as to the IMF developing markets, it is also developing competitors, both good and bad.

As to China currency, Mr. Secretary, we have talked about it before. A recent report that China is boasting about shows that on a purchasing power parity basis, China's economy is roughly the size of ours. What that means is that on the standard they are bragging about, their currency is undervalued not by 20 percent or 30 percent, but 50 percent.

I know you are working to try to push up their currency. We could identify them as a currency manipulator and impose tariffs. I know that isn't the Administration position. But I hope you would take a look at the Chinese boasting that the real measure of the size of their economy, and hence, the real measure of their currency, shows a 50 percent undervaluation.

I want to turn your attention to Norwalk, Connecticut. There is the Financial Accounting Standards Board, which is proposing that we capitalize all leases. This will add $2 trillion to the liabilities of American businesses and $2 trillion to the assets, as well. This will throw off every ratio between liabilities and owner's equity and is estimated to devastate not only real estate but manufacturing and retail. It cost millions of jobs—$400 billion off of our GDP.

I don't think you came here to discuss that, but I do hope—usually you would just leave to Norwalk, Connecticut, and the FASB these intricate issues, but when we are talking about trillions of dollars on balance sheets and hundreds of billions of dollars of effective—on our economy, I hope that you and your staff would take a look at this FASB proposal.

Secretary LEW. We would be happy to take a look at it.

Mr. SHERMAN. In May and December of last year you came and said you would be happy to take a look at the California system for worldwide unitary apportionment. Because one of the questions you haven't been asked here is, if a television set is designed in Japan, manufactured in Malaysia, and sold in California, where is the profit earned? And the answer, of course, is the Cayman Islands.

We need to go with a new system for calculating what portion of a multinational's income is subject to U.S. tax. I know you promised to look at it then. I can't imagine that you have had the time.

Secretary LEW. I actually did go back, and my Assistant Secretary for Tax Policy has taken a look at it and he would be happy to follow up with you.

Mr. SHERMAN. Okay. So I will give him a call and we will take it from there. And that is—

Secretary LEW. And, Congressman, if I can just go back to your characterization about the size of the Chinese economy, I think that just for—

Mr. SHERMAN. I want to squeeze in another question. I have made the point before. Their currency is undervalued. I hope you do even more—

Secretary LEW. I just want to defend the U.S. economy. Our—

Mr. SHERMAN. It is a great economy.

Secretary LEW. —per capita purchasing power—

Mr. SHERMAN. Mr. Secretary—

Secretary LEW. —and our strength in the world is number one still.

Mr. SHERMAN. We are number one. Go, America. Next question.

Secretary LEW. I don't think anyone would trade their economy for ours.

Mr. SHERMAN. I am not trading anything for anybody. Go, America.

Now, you are trying to get us to go along with this IMF change. You have said the IMF being under this new and the existing system, we have a veto over what decisions they make. And I was told often that we had a veto at the World Bank, a very similar institution. And then the World Bank loaned $1.4 billion to Iran.

I had a chance just last week to talk to the number two at the IMF—a Chinese national, Zhu Min. He tells me that, no, the United States does not have the kind of veto that would prevent—which would allow us to prevent IMF lending to Iran and that, in fact, the IMF has an economic team in Tehran now doing the work that would allow the IMF and other international lenders to decide whether to make loans to Iran.

Now I hope that the United States and Europe remain united as to what sanctions to impose on Iran, but I don't know what the policies are going to be. Can you go back to the negotiating table before you come to Congress to negotiate—go back to the negotiating table at the IMF and say, "We need to go to Congress and prove to them that we alone can block loans to Iran if that is American policy?"

Secretary LEW. Congressman, the way our veto works at the IMF is that we have a veto over administrative changes in the IMF; we don't have a veto over each decision that is made. Our veto gives us a disproportionate voice at the IMF and it gives us the ability in almost every case to drive decisions where we want them to go. The reason we need to do the IMF reforms is to make—

Mr. SHERMAN. But if I empower the IMF, the IMF may empower Tehran.

Secretary LEW. But if the United States doesn't have the strong voice it has, our ability to have the IMF make the decisions that we believe are right is weakened. And that is why IMF reform is so important.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New Mexico, Mr. Pearce, for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman.

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

And as a veteran and strong supporter of our military and national security, I was fascinated that you mentioned national security 5 times in your handout to us. But I also note that you specifically referenced what you are doing, too, in Afghanistan and Pakistan.

Pakistan and Afghanistan are ranked number two and three on a global terror index. Both counties are known for harboring and exporting and terror.

So, is there some explanation you can give as to why we would be supporting the building of economies in areas that basically are—I think the comments on the Web pages for the terrorists say they would like to annihilate America and annihilate Americans. Any reason that we should be taking that and running with it?

Secretary LEW. If you are asking why we have U.S. policies to promote a different kind of Afghanistan and Pakistan through our assistance programs—is that—

Mr. PEARCE. I am just asking why we are lending money—

Secretary LEW. I think we all well-learned—

Mr. PEARCE. —to build economies in terrorist states.

Secretary LEW. We have been involved through two Administrations, or multiple Administrations in both parties, in trying to make sure this is not a haven for terrorists to plan attacks on the United States in that part of the world. And our efforts are really aimed at making sure that there is not that kind of a haven, and part of it is making sure that there is an economy that works for people who are not inclined in that direction—

Mr. PEARCE. Looking at what is going on in Iran and what will happen in Afghanistan—

Secretary LEW. I think we have proven our will to take the fight to terrorists in Afghanistan and Pakistan.

Mr. PEARCE. I think with us pulling our troops out, I think the judge is still out on—and the jury is still out on whether or not that nation will slide into the same sorts of things that we find in Iraq now. So I just find it interesting that at a time when we are cutting our military budget—the President's budget slashed Defense spending, and so it looks like maybe they are going to subcontract the defense of the Nation out to the IMF, and I really appreciate you taking that role.

When you talk frequently about Ukraine in your report, have you all dealt with the allegations that $20 billion in gold disappeared from the Ukraine, that $37 billion in loans disappeared from the Ukraine, that $70 billion was moved offshore in the last couple of years out of Ukraine? And we are going to go in there and we are going to stabilize situations where that kind of loss of assets is occurring? And so, have you all dealt with those allegations?

Secretary LEW. Congressman, one of the first actions we took when the current situation developed in Ukraine was to take actions to try and stop the movement of money that was illegally taken out of Ukraine. It is something that we and the international community need to make sure that we do our part on, but there needs to be reform in Ukraine and a different kind of leadership in Ukraine.

I think if you look at the interim government, it is trying very hard—and I think being quite effective under very difficult circumstances—trying to take a different course and not have the kinds of practices that you are describing, which is part of what has created the problem in Ukraine that they are dealing with right now. And it was not entirely a problem of Ukraine's making; there was a lot of influence from Russia over the years.

Mr. PEARCE. I will play that clip for my constituents, but I suspect I will not get a round of approval to vote from people who make $31,000 a year average income in my district to bail out countries—Greece—they refused to pay the tax—40 percent of the people refused to pay taxes. And you want people in New Mexico to pay taxes for the people over there who won't pay their own taxes? I think that is going to be a hard sell, and I will play back your answers.

Secretary LEW. We have never lost a dollar on the IMF. So if you are talking about the IMF—

Mr. PEARCE. I am just talking about situations. And you are here saying that we are the first responders in economic crises around the world, and I am just telling you that the idea that I am going to go back and explain to constituents why I would vote for something like that is probably not going to happen.

Secretary LEW. But, Congressman, that is an important distinction—

Mr. PEARCE. Now, if you would—

Secretary LEW. The United States is not the responder.

Mr. PEARCE. —please, I have 39 seconds.

Secretary LEW. The IMF is.

Mr. PEARCE. If you would please give me my time.

I guess my last question is that there appears to be an IMF practice not to lend money into states which are illegally partitioned, divided up, maybe a civil war is going on. Our loans to the Ukraine, then, seem to give validity to Russia's position in the Crimea. Do you have a comment on that in 10 seconds?

Secretary LEW. I think we have made quite clear we think Russia's behavior is illegal and is not recognized by the United States or the rest of the world.

Mr. PEARCE. But there may be a de facto difference in what the practice says.

Thank you. I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from New York, Mrs. McCarthy, for 5 minutes.

Mrs. MCCARTHY OF NEW YORK Thank you, Mr. Secretary. I appreciate it.

I am going to give you a moment or two to be able to answer the question explaining to people back home why the IMF is so—I don't think we spend enough time with our constituents. I have, because the years I have been on the NATO parliamentarians, I see where the money goes, I see what the money does, especially in the smaller nations that need an upper hand. The money does go and help the regular people, like it would be, like say, for FEMA to help my people back home after Hurricane Sandy. So it is important to me that we get this passed.

I understand that if we do not live up to our obligations—do you have any idea who might take our place if we don't live up to our obligations?

Secretary LEW. The first part of your question—it is so important to have an international body that is the first responder when there is an economic crisis. It should not be the United States in every case. In almost every case, it is the IMF. There is no substitute for the IMF. In Ukraine, we put a billion dollar loan guarantee on top of an almost $18 billion IMF package.

Mrs. MCCARTHY OF NEW YORK Right.

Secretary LEW. Our loan guarantee would not solve the problem, and I can't imagine the United States stepping in to do that job entirely on its own. We have never lost a dollar in the IMF, so what we have done is we have, in the post-World War II world, created an institution where we promote economic stability and a world that promotes U.S. economic growth, because we export to growing countries, and political stability where there wouldn't have been otherwise. So it is incredibly important that the IMF be there.

Now as far as our role in the IMF, there is no doubt the emerging economies have grown and they want a stronger voice. The 2010 reforms were a step—an important step—towards giving more of that voice to emerging economies. It did not come from the United States; it was really a reallocation from Europe to the emerging economies.

Where our veto does come in is we have to agree to changes at the IMF, but it is not a great thing for the leader of the world to be standing, blocking a reform that protects our interests when many others would say, "Why doesn't your share go down?"

Now, while they can't do that to us, they can't impose it on us, our ability to drive decisions where we want them to go in the IMF requires that we be seen as the leader who keeps our word. And I have no doubt that China would like to have a larger interest in the IMF. There are a lot of other countries that would like to have a larger say.

Preserving our share, making sure that we keep our veto, having the strongest, most powerful voice in the world on these issues is part of what makes us the leader of the world.

Mrs. MCCARTHY OF NEW YORK I think that when you think about the way you just answered that question—we talk about being a leader, a moral leader, certainly showing the way on working towards those countries that are looking for democracy, and I, for one, certainly would prefer to see us in the format as far as leadership, versus some of the other developing countries. And I think people have to take that into consideration.

I am sure that the majority of us here on this committee or in this Congress would not like to see some dictatorship coming from other countries that are emerging. So that is some way that we have to protect it.

I think there is a misunderstanding also on the amount of money that goes in and what our share is. But in the end, that is a payment towards leadership, and I think it is, thus, extremely important, and I am hoping my colleagues, as they get to understand this issue a little bit better, that we will be able to get this through as far as up on to the Floor and for a vote.

We have worked on this for years, the same with the Export Import Bank. I know that is a little bit on the side, but for this country, it is extremely important. And for my constituents and for every little small business to have a part of that only grows our economy, and those are ways that we can go.

So with that being said, I thank you for your work. I know a lot of people don't understand it. I would say to my colleagues not so much to go out on a CODEL but to take trips that are educational and see how this all works in the other parts of the world, which—the trips are not fun, you work hard and it takes up your time, but it is quite an education.

With that, I yield back.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, the vice chairman of our Monetary Policy and Trade Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman.

And I appreciate you being here as well today, Mr. Lew.

Do you believe that the IAIS should develop global insurance capital standards?

Secretary LEW. I think that it is important for there to be a global discussion of this, because while we have to make decisions for ourselves, and every national authority has to make decisions for itself, it is very useful to have an international discussion that drives the conversation to a high standard. I would just point out that in that IAIS process, our insurance experts sit at the table and have a strong voice.

Mr. HUIZENGA. I understand. But should they be the ones developing it? That is not the place for just conversation; that is the place where they are developing standards, correct?

Secretary LEW. Right. But I think it is important—it is more like a model code than it is law.

Mr. HUIZENGA. Okay.

Secretary LEW. And it leaves each national authority the ability to address issues in their own way.

Mr. HUIZENGA. I understand. And I understand this might be in the bailiwick of the USTR, but would you support, then, financial services being a part of the TTIP conversations?

Secretary LEW. No. I think it is important for financial services to be in the channels that they are in, where I think they are discussed in an effective way in international settings. We have been driving the discussion over the last number of years—

Mr. HUIZENGA. I'm sorry, is that a yes or a no on TTIP?

Secretary LEW. I do not think that they should be included in TTIP and subject to trade actions because I think that we each have requirements in our national authorities to do prudential regulation, and our standards have to be based on what it is that maintains the soundness of our financial system.

Mr. HUIZENGA. So even with the Europeans potentially giving ground on some ag issues and some other things, as they have indicated at least to me and some of my colleagues, it seems to me if they are—the Europeans are interested in discussing financial services that might be a place we want to go.

So having said that, can you assure me and the committee that any of these new rules that are developed by IAIS will be compatible with our State-based system of regulation?

Secretary LEW. We do have a State-based system of regulation. Our Federal Insurance Office has taken a look at how to think about this in the future and it very much reflects the deep tradition we have of State-based regulation.

When I am in international meetings, it is something people don't understand all over the world.

Mr. HUIZENGA. Sure. No, I—

Secretary LEW. It requires a lot of explanation.

Mr. HUIZENGA. So, it sounds like the answer is "maybe."

Secretary LEW. Well, no. We have a system of State-based regulation. We will make decisions in the United States on any changes that come in that, if at all. And it is a tradition that is very important.

Mr. HUIZENGA. I am sure you are a very smart man, very well-read, so I assume that you are well aware that in recent months, Federal Reserve Chair Yellen, Governor Tarullo, and others have stated that insurance companies "have unique business models," I think was the phrase that was used in this committee, that make them very different from banks, and that a bank-centric regulatory model really isn't going to work for a lot of these insurance companies.

And coming from Michigan, we are the domicile of a couple of different Canadian insurance companies that are very recognized and well-known, not even necessarily physically-based, but the entry point is Michigan. And it seems to me when we are talking Canada and the United States, the largest trading partners in the world, we are not dealing with the problems that caused the economic downfall here.

So I think there is a lot of concern by a number of us as how we are going to be dealing with these roles. And I just am—I understand you don't want to answer the question of what the position of Treasury is advocating at the FSB to promote these state-based systems.

At least, that is what I have heard, and my colleague from Texas, Chairman Hensarling, and a number of others have tried to take a run at that. You don't want to answer whether you are advocating or not advocating; you are just saying you are a part of the process of review. But there are a lot of us looking for some assurance that we are not going to throw the baby out with the bath water here.

Secretary LEW. Yes. I think that the question of designating the largest and most systemically significant institutions, we have only made a few decisions to apply that designation.

Mr. HUIZENGA. So why—

Secretary LEW. And there aren't a lot of firms that would meet the threshold test—

Mr. HUIZENGA. But then why would these just apply to international players? What is not going to make you say, let's apply these standards to domestic—large domestics?

Secretary LEW. I think if you look at the process that FSOC has gone through, it—we are not going to be applying it to all insurance companies in the United States, only companies that present systemic risk. And there, I think it is important, as Chair Yellen said, that they be regulated in a way that reflects the realities of their business model. And I know the regulators are looking at ways to do that.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from New York, Mr. Meeks, the ranking member of our Financial Institutions Subcommittee.

Mr. MEEKS. Thank you, Mr. Chairman.

Mr. Secretary, I hope you recall that not too long ago we had a conversation at the White House regarding minority inclusion. I later followed up with a letter to your office asking that a greater number of minority-owned businesses and professionals be included in the Treasury's recently announced program to issue new floating rate notes.

Since then, the Association of Securities Professionals, which is the premier trade association for minorities and women in the financial services industry, has brought to my attention that the Pension Benefit Guaranty Corporation (PBGC) and several other Federal pension funds are not contracting any minority- or women-owned firms for asset management, brokerage, and other financial services.

A lot of the Members sitting here today—led by the ranking member—authored Section 342 of the Dodd-Frank Act on minority inclusion. And we frankly have yet to see its implementation at a level that meets many of our expectations. And so I was wondering if you could offer us any evidence or facts that point to the contrary?

Secretary LEW. I think the record at Treasury, if you look at the TARP program, has been one where there has been substantial progress made on the representation of women- and minority-owned businesses, and it is something we take very seriously and we work very hard on.

The floating rate auction is handled like all other auctions are. It is developed internally with—the product is developed internally within Treasury and it is handled through the primary dealers. So, it is really not a program where we have contracts that we are putting out.

But where we do contracts, where there are those issues, we take these issues very seriously, and I am happy to look at the issue you are raising with regard to PBGC.

Mr. MEEKS. Yes, because I need you, because it seems as though, and here the whole idea is to make sure because there are lots of dollars there and it seems that they are going to certain segments and others are being left out. And the opportunity at least to participate in the system is not there.

And so, I would love to have a further dialogue. I think this is very important, and maybe we need to go through the process again as to what it is and how some of these firms could—they want to compete with anyone else. They are not asking for anything special, but they want to make sure the door of opportunity is there. And that is why we noticed when we went through all of this previously; Section 342 was very important to us.

And so, I would love to have another follow-up discussion in that regard and see what we can do there.

Secretary LEW. I would be happy to.

Mr. MEEKS. Let me then also ask—the OCC, the FDIC, the NCUA, and the Federal Reserve all recently testified before this committee, and they all have established permanent and high-level offices in their organizations that specifically deal with small and community financial institutions.

They further testified that they all agreed that it was good practice to have such functional and policy-making separations between big institutions and community financial institutions. The U.S. Treasury sets broad financial and economic policies for the entire financial industry.

Community bankers have long complained about a lack of voice at the U.S. Treasury and how one-size-fits-all financial policies and regulations have been detrimental to their business model. So it just seems to me, wouldn't it make sense to have a separate office and/or official—senior official at the Treasury who handles specifically small or community financial institutions?

Secretary LEW. Congressman, let me start by agreeing that the concerns of small banks, and small businesses have to be treated very seriously and incorporated into any decision we make that affects their interests. I think our record shows that we have done that by action as we have gone through various decisions that we have made.

I am not sure that having a separate silo for smaller firms actually helps accomplish that goal. There is the risk that decisions start getting isolated from each other and you don't see the potential impact. So I am happy to look at the idea, but to me the important question is, as each decision is made, are those kinds of questions being asked and answered?

And I would worry a little bit that by creating a place where people worry about that and suggesting that it is not everyone's responsibility, you could end up with less, not more impact. But I am happy to look at it.

Mr. MEEKS. Okay. And lastly, the House is voting today on the Electrify Africa Act. And we now have nominees—new nominees, in fact, at the World Bank and the African Development Bank who will be instrumental in pushing the initiative forward as they view these very important development institutions.

What can the U.S. Treasury do to ensure that this initiative is successful and that American firms, and particularly minority firms, can participate in the Electrify Africa Act?

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

An exceedingly brief answer, Mr. Secretary?

Secretary LEW. Congressman, I am happy to look at the proposal. I would just say that Power Africa is a very important initiative that the President has announced and that we are working on in conjunction with other agencies, and I would be happy to follow up.

Chairman HENSARLING. The Chair now recognizes the gentleman from North Carolina, Mr. McHenry, the Chair of our Oversight and Investigations Subcommittee.

Mr. MCHENRY. Good morning.

Secretary LEW. Good morning.

Mr. MCHENRY. Are you having a good day?

Secretary LEW. I am having a fine day. I hope you are, too.

Mr. MCHENRY. Yes, I am. Thank you.

Are you a member of the FSOC?

Secretary LEW. I am the Chair.

Mr. MCHENRY. Okay. So that is a yes?

Secretary LEW. Yes.

Mr. MCHENRY. Oh, good. You have actually said yes or no today. This is excellent. So we just want to start off on that basis that we have had two nice exchanges here.

I want to ask you about the nonbank SIFI designation process. As a member of FSOC, and as the Chair, as you just said, do you meet with firms that are to be designated or contemplated to be designated?

Secretary LEW. The way the process is set up, the initial stages are done using public information, but as it proceeds into a stage where it is being considered for a decision, there is contact with the companies to get information. And after a preliminary judgment is made, the firm has the ability to meet with the entire Council.

Mr. MCHENRY. All of the FSOC voting members?

Secretary LEW. Yes. One firm, Prudential, availed itself of that opportunity and the entire FSOC met with them.

Mr. MCHENRY. Is that before or after the notice of proposed designation?

Secretary LEW. It is after the proposed designation but before an action has been taken.

Mr. MCHENRY. Before the action has been taken. So the FSOC votes to propose the designation, then the firm is able to in essence appeal and come before you?

Secretary LEW. Right. But they are having extensive contact with the people preparing the record.

Mr. MCHENRY. Are those your deputies or is that some lower level?

Secretary LEW. It is either the deputies or the technical staff—

Mr. MCHENRY. So in this whole process, do you ever meet with these firms that are potentially designated?

Secretary LEW. I just described how we meet with them.

Mr. MCHENRY. Okay, then explain this to me: So you only meet with the firms as a full group after you have proposed a designation that they are SIFIs? Is that correct?

Secretary LEW. There is—

Mr. MCHENRY. Is that correct?

Secretary LEW. As a member of FSOC, that is where I have met with them, yes. But there is extensive contact with the firms before that point.

Mr. MCHENRY. Are voting members meeting with firms to be designated?

Secretary LEW. Only after the proposed designation.

Mr. MCHENRY. Okay. Thank you.

So, why is that the case? Can you cite a rule or regulation on why you only meet with them after you have proposed their designation as an SIFI?

Secretary LEW. We have laid out a procedure that we work through in an orderly way, where a record is established, where in the early stages, the goal is not to have there be any kind of a notion that these are market-sensitive processes.

Reaching out creates a different situation than not reaching out. So there is a desire to first look at all the public information before you even take the step of reaching out.

Mr. MCHENRY. Right, but you only meet with them—

Secretary LEW. But before a designation is made, there is extensive contact.

Mr. MCHENRY. You only meet with them after you make a market-moving designation with a proposed SIFI designation. You only meet with these folks afterwards. As a voting member, you have already testified that is the case.

Secretary LEW. In stage three, where the record is put together for the FSOC to make a judgment, there is extensive back-and-forth with the company, and that is preparing a record that goes to the voting members. And after a proposed designation is made—which is all confidential; there is nothing public in that process—the firm has the opportunity to meet with the Council.

Mr. MCHENRY. Okay. So let me move on.

You sent a letter yesterday stating that what you said in front of the—your testimony in front of the Senate was incorrect. You said if the debt limit was not raised, and assuming Treasury had sufficient cash on hand, the New York Fed's system would technologically be capable of continuing to make principal and interest payments from Treasury, counter what you testified. And I appreciate you correcting the record.

So my question is, if the Fed is able to make principal and interest payments, why is your assertion that credit markets would freeze still correct?

Secretary LEW. Congressman, I stand by everything I have said about the debt limit, including at that hearing. There—

Mr. MCHENRY. Actually, you were saying that you were incorrect at the hearing in this letter.

Secretary LEW. No, that is not what the letter says, and I am happy to answer your question. I only have 10 seconds.

Mr. MCHENRY. Go for it.

Secretary LEW. A little bit more time would be helpful.

Chairman HENSARLING. Please, Mr. Secretary.

Secretary LEW. There is no way to pick and choose what payments you make of the Federal Government without defaulting, so even if you have a technical ability to write a check to pay interest and principal, then you are not paying Social Security or veterans' payments or contractor payments. And if you don't extend the debt limit you end up with the Government of the United States, for the first time in its history, defaulting. Nobody should want to do that.

The question I was responding to yesterday was just a technical question, and the letter speaks for itself.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for helping the committee with its work.

I will be in Ukraine again next week, and the last time I was there I heard considerable complaints about what was perceived as our weakness in terms of economic sanctions against Russia, so I know that the results have been mixed at best.

But I do know that between the Federal Reserve and the Treasury, we maintain currency exchange reserves that allow parties who engage in international trade to convert their rubles, for example, into dollars. And I think one of the most impactful things we could do, I think if we really wanted to get Russia's attention, would be to restrict the ability of those businesses in Russia to convert their rubles into dollars. And I think if the E.U.—if the European Central Bank did the same thing, I think it would send a very strong message to the Russians that from a financial position, we completely disapprove of what their activities are in Crimea and in Eastern Ukraine.

Is this something that you have thought about or Treasury has considered in terms of a sanction? Because these individual sanctions on the oligarchs are not getting us there, and unless we are not really serious, this is something that we should be thinking about.

Secretary LEW. Congressman, I think we have been very clear that we have additional steps we can take. The President has issued an Executive Order that gives me the authority to designate sectors in the Russian economy. We have been taking steps which I believe have had an impact; they are clearly being felt by Russia.

The goal of these sanctions is for President Putin to change his policy. It is for there to be a way out of this through a diplomatic resolution. And we are—we hope we don't need to take additional steps, but we have made clear that we have additional steps—

Mr. LYNCH. Reclaiming my time, the impact seems to be very, very narrow. It is on the oligarchs. But Putin's popularity for what he is doing is still very, very high. He still has the support of the Russian people because the impact is not being felt on them and they are not seeing the consequences of—they are not feeling the consequences of his actions.

What I am saying is that if we restrict the currency exchange for the ruble, I think it would have a detrimental effect on the value of the ruble, the liquidity. And if the Europeans do the same thing, we could really send a very strong—an extremely strong message to Putin and to the Russian people that this is not a behavior that we condone.

Secretary LEW. I don't think that there is any doubt on the part of the Russian leadership that we have additional steps we could take that will increase the amount of pain it causes to the Russian economy. And I think the expectation of that has had an effect on their judgments, but obviously not the effect to correct the situation.

We are going to continue at this, and we have made it clear that it is unacceptable. We have made it clear. It is not the goal of sanctions to cause pain to the Russian people; it is to change the policy of the Russian government.

I think the Russian economy is weak. It has gotten weaker and people are beginning to feel it. And whatever popularity there was around the initial moves in Crimea, the pain is only going to get worse and worse if they don't—

Mr. LYNCH. All right. I am going to have to reclaim my time.

Look, the European Bank for Reconstruction and Development is basically the only international financial institution that has a specific mandate to work in countries, and this is a quote from their enabling act: "those countries committed to and applying the principles of multiparty democracy, pluralism, and market economics." Oddly enough, the United States has 10 percent of the voting power within the European Bank for Reconstruction and Development. And yet, they are doing business in Russia.

And do you really think that is consistent with our participation in that program, to support what Putin is doing by continuing to invest in Russia through the European Bank for Reconstruction and Development?

Secretary LEW. Since this current situation has developed there have not been loans to entities that are connected to the Russian government. There were a couple of loans made to firms that had no connection to the policies.

But as the situation on the ground changes, it is one of the many things that we are going to keep our eye on as to whether the policy there also should change. We would not support loans that would support the Russian government.

Mr. LYNCH. I hope so. All right, thank you. Thank you, Mr. Secretary.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

Speaking of time, because of the time that the Secretary has agreed to spend this morning, the Chair intends to call on three more Members: Mr. Royce; Mr. Green; and Mr. Mulvaney.

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

Mr. ROYCE. Thank you, Mr. Chairman. I appreciate it.

Mr. Secretary, as you know, the Fed, the Treasury through the FIO, and the NAIC are all engaged with the IAIS over the development of international capital standards for certain insurers. And I am somewhat troubled to hear that IAIS is likely to propose that the capital standards be applicable to more than just systemically important firms. In other words, they are going to extend that to internationally active insurance groups.

I think it has been noted today that Treasury also sits on the Financial Stability Board, which engaged the IAIS and oversees that institution through this process. And as a threshold matter, I am very concerned to hear stakeholders talk to me about the lack of coordination among U.S. representatives engaged in IAIS.

Unlike some of my colleagues, I do think there should be a strong Federal role in coordination. So my question is this: How can we ensure that our participants in this process speak with a uniform voice and ensure that we support insurance-centric standards so that U.S. companies who operate around the globe are not disadvantaged here at home or in other countries?

Secretary LEW. Congressman, I am not aware of a difference amongst the U.S. participants in terms of the principle you just stated, that there be insurance-centric standards if standards are applied. The IAIS has participants from—who have deep expertise in the U.S. insurance industry, including the State regulatory process. So I think it is important that our participation there is very well-informed, and it is important not just on the substance but in the tradition of State regulation in the United States.

Mr. ROYCE. I understand, Mr. Secretary, but the reason for the question is we had a hearing here which vetted and where we heard about those differences of opinion. And so, that is why I raised it.

But let me point out another point, and that is the FSB is also actively looking at designating nonbank companies as global SIFIs. A few months ago, the FSB proposed a $100 billion threshold for designating investment funds as G-SIFIs.

How was such an arbitrary number set? That was my first question.

And to be fair, I am suspicious of the $50 billion threshold for U.S. banks as well. It is not a risk-based assessment.

In this case, it appears that this $100 billion threshold—here is the point—exclusively captures only U.S. funds. At $100 billion, that is what it does. No foreign funds currently meet that threshold. So why would you support global designation criteria that only impact U.S. funds and put them at a disadvantage compared to their foreign competitors, and why support arbitrary thresholds at all?

Secretary LEW. Congressman, the only designation that would result in regulation would be a national authority designation, which would have to have been made in the United States by FSOC. And I just want to point out that our review in this area has not concluded that designation is the right option. We don't know that—there are other ways that the issue might be addressed and it might not need any further action.

So we have not made a judgment in FSOC how to proceed with it. We are in the early stages of doing what FSOC was created to do, which is look ahead at the future challenges and make sure that we are thinking about them in advance.

Mr. ROYCE. And from that I take that in these negotiations you are resisting this designation which would put U.S. firms at this competitive disadvantage?

Secretary LEW. What I am saying is—

Mr. ROYCE. I understand that it is an ongoing process—

Secretary LEW. Yes.

Mr. ROYCE. —but I was just trying to figure out where you actually are in the process—

Secretary LEW. There is no ambiguity—

Mr. ROYCE. —your position.

Secretary LEW. —the decision on U.S. firms will be made in the United States and will be made by FSOC.

Mr. ROYCE. Thank you, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back.

The Chair now recognizes the gentleman from Texas, Mr. Green, the ranking member of our Oversight and Investigations Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman.

I thank the ranking member.

And I thank the witness for appearing today.

Let's, for a moment, talk about a cost-benefit analysis, because as we look at the IMF, the benefit that it accords the world, not just the United States, in my opinion outweighs the cost. Can you give some brief analysis in terms of cost versus benefit as it relates to the IMF?

And if you would like to, you can direct it toward the United States, but I truly think that the global economy has a better standing because the IMF makes contributions. For example, if there is a bank that is solvent and at a time of crisis it is about to default, the IMF can prevent that from occurring and that then helps the global economy, which we happen to be a part of.

Secretary LEW. Congressman, I can't give you a quantitative answer but I can tell you qualitatively that the U.S. economy and the global economy would be in a much worse place right now if the IMF didn't exist, and if the IMF wasn't acting responsibly both in moment of crisis, like 2008–2009, and when individual countries face crises.

Our economic growth in the United States can't be separated from economic growth around the world. As I was saying earlier, most of the demand in the world is not in the United States. Europe, if it were in a freefall through the last 5 years, wouldn't have just been a problem for Europe; it would have been a problem for the United States because we export from the United States and our growth and global growth are interconnected.

The fact that the IMF steps in with tough measures, responsible programs are based on countries putting their fiscal house in order and reforming their systems, and it puts the resources behind economic recoveries. And I think that right now, you are seeing one after another country in Europe emerge and go to the market with bond issues; you are seeing around the world in Asia and Latin America countries that are stronger because of the IMF programs; and you are seeing the United States, where our economic growth is, in significant part, tied to our ability to export to those markets.

So I can't give you exact numbers. I would be happy to go and try and put some numbers to it. But it is an enormously important institution, both for the United States and the world.

Mr. GREEN. Thank you. I think you have given a good representation of how it impacts positively the United States and the world economy.

Just to give some indication that the IMF is not a liberal institution, is it true that the increases in quota—that five of the increases in quota of the IMF took place under the reign of Republican Presidents?

Secretary LEW. I haven't looked at the number, but I can tell you, Republican and Democratic Administrations alike since World War II have made all the arguments that I am making here today.

Mr. GREEN. On page 11 of your statement that you submitted, we have an indication that every living Treasury Secretary from James Baker on has gone on record urging us to support the IMF. Is this still a true statement?

Secretary LEW. I can't speak for each of them individually. If it was in my statement, I assume I checked it at the time. So I always like to give people a chance to speak for themselves.

Mr. GREEN. I understand.

And finally this: Is there a way for us to separate ourselves from the world economy and, in so doing, not have the ability to engage in diplomacy by way of utilizing our economic prowess? By participating with the IMF, this is a means by which we can use diplomacy as the first option.

Can you just comment on how we have the benefit of diplomacy as a first option?

Secretary LEW. I think that the United States leads by example. Everyone would love to have our economic system and, for all of our challenges, our political system. We are the strongest, most stable country in the world. Everyone in the world looks to us as being the measure of strength.

In an international financial context, the IMF is a place where we have an outsized voice because of that and because we have kept our commitments. And the reason I have such a passion for us ratifying the 2010 reforms is it would just be a terrible disservice to the United States and to our role in the world for that to erode at all.

Mr. GREEN. If we didn't have the IMF, would you recommend that we create one?

Secretary LEW. There is nothing else that does what the IMF does.

Mr. GREEN. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney, for 5 minutes. He will be our last questioner.

Mr. MULVANEY. Thank you, Mr. Chairman.

And thank you, Mr. Secretary.

Secretary Lew, you are statutorily required to make this presentation, aren't you?

Secretary LEW. Yes, this is a statutorily required—

Mr. MULVANEY. I understand that you have decided that you are only going to make yourself available for 2 hours, which I think expires here in the next couple of minutes. What is the statutory authority, sir, for you to limit your testimony to 2 hours?

Secretary LEW. Congressman, it was an arrangement we—agreement we reached—

Mr. MULVANEY. Do you have any statutory authority to unilaterally limit—

Secretary LEW. I believe the statute just requires a hearing.

Mr. MULVANEY. I'm sorry?

Secretary LEW. I believe the statute just requires a hearing.

Mr. MULVANEY. So you don't have any statutory authority to say you are going to be present for a certain number of hours—

Secretary LEW. I have tried to make myself available on any number of occasions to the committee. This is the third time I have had this hearing, and I have had other—

Mr. MULVANEY. There are 20 members of this committee who won't get a chance to talk to you today. That represents roughly 14 million people. Would you be willing to stay for an extra hour?

Secretary LEW. Congressman, I—we will work with the chairman on when—

Mr. MULVANEY. I understand you have been working with the chairman since January 14th of this year to try and set up this meeting. We have also, I understand, been trying to work with you for a meeting next month. Will you appear before this committee in May, sir?

Secretary LEW. This is May.

Mr. MULVANEY. Excuse me, in June for the FSOC hearing?

Secretary LEW. Congressman, I am going to leave that to be worked out between the committee and my staff. I—

Mr. MULVANEY. Have you instructed your staff to make you available for a hearing before this committee in June?

Secretary LEW. I am sitting here because I committed to this hearing and I have told the chairman I will work on trying to—

Mr. MULVANEY. Will you commit to a hearing before this committee regarding—

Secretary LEW. Congressman—

Mr. MULVANEY. —the FSOC in June?

Secretary LEW. Congressman, I will work out a date that works for both of us.

Mr. MULVANEY. I will take that as a no.

I want to follow up—

Secretary LEW. —a date that works for both of us.

Mr. MULVANEY. I want to follow up on Mr. McHenry's questioning regarding the letter that you sent last night regarding prioritization of payments. And I think you said to him that while it was technologically possible to prioritize payments, that it would still constitute default because Social Security checks wouldn't go out, contracts wouldn't be fulfilled, et cetera.

Is that an accurate representation of your testimony to Mr. McHenry?

Secretary LEW. It is close.

Mr. MULVANEY. That is fine. How do you define "default?"

Secretary LEW. I think when the Government of the United States fails to meet its obligations, it is in default of whatever obligation it has failed to meet.

Mr. MULVANEY. So to you it means more than just not paying principal or interest on debt?

Secretary LEW. Correct.

Mr. MULVANEY. And it is your understanding, then, based on your letter of last night, that if the Treasury has sufficient funds, it will be able to make principal and interest payments on debt?

Secretary LEW. No. All I said last night is that a check-writing system could work. It is not my decision to choose what to pay and what—

Mr. MULVANEY. No, that is not what you said last night. You said that the New York Fed's systems would be technologically capable of continuing to make principal and interest payments—

Secretary LEW. Technologically capable.

Mr. MULVANEY. —while Treasury was not making other kinds of payments. And my question to you is, if the Treasury is making payments on principal and interest but not making other payments, is that default, in your mind?

Secretary LEW. Congressman, first of all, you did not accurately restate my letter because it does not—

Mr. MULVANEY. Actually, I read it word for word.

Secretary LEW. But you are leaving out the words "technologically capable." It does not say that the payments will be made; it is not my decision. Only the President of the United States can decide whether or not to do that.

Mr. MULVANEY. Did you tell anybody outside of Treasury—

Secretary LEW. —and that decision has never been made by a President of either party.

Mr. MULVANEY. Did you tell anyone outside of Treasury—did you tell anyone who owns any debt of the United States of America that their principal and interest payments could technologically be paid—were capable of being paid—in the event the debt ceiling was not—

Secretary LEW. The question that I was asked and answered on many occasions was has a decision been made, and I answered "no."

Mr. MULVANEY. But the question you are being asked now, sir, is did you tell anybody else on Wall Street, anybody who owns any debt, that they were capable of being paid in the event the debt ceiling did not get raised?

Secretary LEW. I can't speak for all conversations that might have happened. I am not aware of any conversation I—

Mr. MULVANEY. I am not asking about all—I am asking about your conversations.

Secretary LEW. I am not aware of any conversation—

Mr. MULVANEY. Did you ever tell Morgan Stanley they were going to get paid? Did you ever tell Bank of America they were going to get paid?

Secretary LEW. I have no recollection of any conversation that I had with any party.

Mr. MULVANEY. Do you have any recollection of having any conversation with any Wall Street firms regarding prioritization of payments?

Secretary LEW. Look, I had many conversations where people asked what the decision was and I have said to them what I have said here.

Mr. MULVANEY. I am not asking about the decision; I am asking you about the capability. The letter last night said it was technologically capable of making the payments. Who else knew that?

Secretary LEW. Congressman, the—

Mr. MULVANEY. When did you know that they were technologically capable of making the payments?

Secretary LEW. The question of whether or not we make payments is the—

Mr. MULVANEY. I am not asking that. Mr. Lew, when did you know the payments could be made?

Secretary LEW. Congressman, I would have to check; I don't recall the date. But the issue is—and I don't know why anyone would want to be in a place where the United States—

Mr. MULVANEY. But that is not my question, sir. My question is not why we would want to know; the question is, why did your testimony change?

Secretary LEW. My testimony did not—

Mr. MULVANEY. And who else did you tell? Who were you telling—

Secretary LEW. Congressman, my testimony didn't change.

Mr. MULVANEY. —back in October that they were going to be paid when you were on national television telling people we were going to default? That is my question.

Secretary LEW. Because you asked me my definition of default, it is the same today as it was then. If the United States of America fails to pay—

Mr. MULVANEY. So if we ask you on television next time if debtholders will be paid, you will say "yes?"

Secretary LEW. No Congress has ever put the United States in a position where it couldn't pay its bills, and no Congress—

Mr. MULVANEY. But next time the debt ceiling becomes an issue and people ask you, "Will debt holders be paid," will you say yes?

My time is up.

Thank you, Mr. Chairman.

Chairman HENSARLING. Thank you.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing stands adjourned.

[Whereupon, at 12:07 p.m., the hearing was adjourned.]

A P P E N D I X

May 8, 2014

*** EMBARGOED FOR DELIVERY***

Written Testimony before the House Committee on Financial Services on the National Advisory Council on International Monetary and Financial Policies (NAC Report)
Treasury Secretary Jacob J. Lew
May 8, 2014

Introduction

Chairman Hensarling, Ranking Member Waters, and Members of the Committee, thank you for the opportunity to testify today.

Economic conditions continue to improve in most advanced economies, led by the United States. We have now experienced nearly five years of growth. A stronger private sector is helping grow the economy and drive deficits lower. Over the past 50 months, the private sector has created 9.2 million jobs. The housing market has improved. Home prices are rising, and millions of homeowners are no longer under water on their mortgages. Household balance sheets continue to heal, exports are growing, and manufacturing is making solid gains. And health care costs are growing at the slowest rate in 50 years. Yet there is more to be done to create jobs and accelerate growth. While corporate profits have been hitting all-time highs and the stock market has been vibrant, too many in the middle class and those striving to get into the middle class, are struggling to make ends meet.

The President's Budget addresses these challenges. It puts forward proven, pro-growth initiatives to expand opportunity for all Americans. And it fulfills the President's pledge to make this a year of action, while offering a framework for long-term prosperity and competitiveness.

Part of my job is to work to create the most favorable external environment for U.S. workers and businesses. The international financial institutions—the International Monetary Fund (IMF) and multilateral development banks (MDBs)—are critical partners in this endeavor. Our investments in these institutions foster a more stable and vibrant global economy, which is critical to a growing U.S. economy. Working within these institutions is a powerful way to promote our national security, support the next generation of export markets, and address key global challenges such as environmental degradation and food insecurity, while fostering private sector development and entrepreneurship.

Thanks to bipartisan support, U.S. leadership at the MDBs is strong and enables us to influence how and where resources are deployed—often on a scale that we cannot achieve unilaterally. And, as the largest shareholder in the IMF and the only country with veto power over major IMF decisions, we have a great deal of influence within this critical institution. Yet, the failure to pass IMF quota and governance reforms legislation is undermining our international credibility and threatening to undermine our influence. The reforms are necessary to put the IMF's finances on a more stable long-term footing, help modernize the IMF's governance structure, and enable the United States to preserve its strong leadership role in shaping the institution.

The IMF and Ukraine

The United States has been at the forefront of the effort to support Ukraine during this fragile period. Our goal continues to be for Russia to deescalate the situation. However, since Russia has thus refused to follow through on its Geneva commitments, last week we imposed additional targeted sanctions on a number of Russian individuals and entities and restricted licenses for certain U.S. exports to Russia. Working closely with our partners in the international community, we are prepared to impose still greater costs on Russia if the Russian leadership continues its illegal intervention and provocative actions in Ukraine.

It is in all of our interests to have a stable and prosperous Ukraine. The international community's support for the Ukrainian government's efforts to restore economic stability has been vital as the country prepares for elections later this month.

The situation in Ukraine highlights the important role of the IMF. Over the years, Ukraine has struggled to put in place sound market-oriented policies. Dependence on Russian assistance has kept Ukraine vulnerable to Russia's energy stranglehold and cessation of flows, while corruption and poor governance have impeded reforms.

An alternative is needed if Ukraine is to achieve growth and stability, and the IMF is a critical element of that alternative. The $17 billion IMF support package approved last week represents the only viable way to offer Ukraine a path forward to a stable market-led economic future, rather than remaining dependent on Russia. As the world's first responder in an economic crisis of this kind, the IMF is best equipped to provide a substantial financial package and the technical expertise to work with the Ukraine government to design its economic reform package.

In order to support Ukraine as it undertakes the work needed to return to economic stability, the amount of resources necessary were substantially greater than what could be provided through bilateral assistance. Only the IMF, in partnership with other international financial institutions, can meet these pressing demands. That is why the economic engagement strategy for Ukraine centers on the IMF. Moreover, an IMF program was a prerequisite to unlocking bilateral and multilateral support, as others look to the assurance of an IMF reform program before committing their own funds.

The IMF Quota Reforms and U.S. Influence

Our failure to approve the IMF quota and governance reforms is causing other countries, including some of our allies, to question our commitment to the multilateral institutions that we worked to create and that advance important U.S. interests around the world. At the recent G-20 and IMF spring meetings, other countries pushed to move forward on quota reforms without the United States.

This underscores why it is so important that Congress act to pass the IMF legislation. Completing the IMF reforms is a national security and economic policy priority for the United States. This reform package will advance vital institutional reforms to modernize the IMF, strengthen its financial integrity, and preserve America's leadership role in this institution.

The Administration has requested legislation in our budget request to implement the reforms. Specifically, the legislation reduces U.S. participation in the New Arrangements to Borrow

(NAB) and simultaneously increases the size of the U.S. quota in the IMF by the same amount. The legislation will also enable the United States to support an amendment to the IMF's Articles of Agreement to facilitate changes in the composition of the IMF Executive Board while preserving U.S. influence on the Board.

Let me be very clear: These reforms change the composition, but not the level, of our financial commitment to the IMF. The U.S. quota increase will be matched by an equal and permanent reduction in U.S. financial participation in the NAB, for **no net change** in overall U.S. financial participation in the IMF.

We look forward to working with Congress on approaches to get legislation passed as soon as possible.

The IMF and the U.S. Economy and National Security

The IMF supports U.S. jobs, exports, and financial markets. During financial crises abroad, the IMF serves as the first responder to stresses, and thus helps protect our domestic economy by promoting global growth and stability. Continued strong U.S. leadership in the IMF will help ensure that the IMF has the tools it needs to help prevent and resolve financial crises that threaten the health and prosperity of our economy.

Likewise, when foreign economies falter, they import less from U.S. businesses and they invest less in the United States. U.S. exports accounted for roughly 14 percent of U.S. GDP in 2013, and American export industries supported nearly 9.8 million U.S. jobs. Foreign economic crises can also damage our financial markets, hurting the savings and retirement investments of American households.

The IMF has provided crucial assistance for decades. It played a critical role supporting Europe during its financial crisis, protecting a market that accounts for over one-quarter of our exports from collapse. The IMF has provided financial and technical assistance in the Middle East that helped protect our allies and kept governments out of the hands of extremists. And, during the Asian financial crisis, the IMF helped protect export markets for our farmers and businesses.

The IMF is a force multiplier, which helps support U.S. national security, diplomatic, and economic interests. Just as we seek coalition partners in cases of military action abroad and United Nations peacekeeping missions, the IMF helps marshal global resources to respond to global economic threats.

Safety of Our Participation in the IMF

Our participation in the IMF is safe and smart. When the IMF lends, it does so subject to appropriate conditions and with safeguards to assure that it is repaid. And its repayment record is spotless. When the IMF draws on U.S. resources, the United States is exposed to the IMF's balance sheet – not to the borrowing countries – and the IMF's balance sheet is rock solid. The IMF is regarded as the world's preferred creditor, meaning that the IMF's member countries acknowledge and agree that it gets repaid first. Since the IMF was established 70 years ago, it has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression. **And every dollar from the United States that is part of the U.S. quota or NAB participation is matched with at least four more from other countries around the globe.**

Multilateral Development Banks (MDBs)

The MDBs are focused on long-term, sustainable development and poverty reduction. Since the institutions were created, the MDBs have helped nurture emerging economies, which have become key export markets for the United States. MDB financing and policy assistance have reduced trade barriers, improved private sector development, increased educational access, built infrastructure, promoted open markets, and provided stability and security.

MDBs and the U.S. Economy and National Security

U.S. military leaders have consistently praised the MDBs for containing emerging national security threats by helping to alleviate poverty and spur broad-based, private sector-led economic growth. In Afghanistan and Pakistan, the MDBs are indispensable partners in our efforts to help establish stability and growth. In concert with U.S. development agencies, the MDBs are investing in transportation links, energy sources, manufacturing centers, and financial services to help build interconnections across South and Central Asia that are vital to helping the region reach its full growth and investment potential.

The MDBs are also vital partners in fragile states, where nearly 1.5 billion poor people live, many in extreme deprivation. Such circumstances precipitate conflict and violent extremism, putting greater demands on U.S. security resources. In these difficult environments, the MDBs have the resources and expertise needed to help improve the lives of millions of people giving them a stake in stability.

In addition, the MDBs complement U.S. bilateral assistance. We have secured strong support from the World Bank and the African Development Bank for President Obama's Power Africa Initiative, which aims to bring energy to at least 20 million new households and businesses in sub-Saharan Africa. These institutions play indispensable roles, deploying their technical expertise to promote difficult, yet crucial, reforms necessary to encourage private sector investment in Africa's energy sector, and providing financing for electrification infrastructure projects.

As we continue to protect our economic recovery, increase exports, and create jobs at home, support for the MDBs remains critical. Having nurtured some of our largest trade partners, such as India, Brazil, and Turkey, the MDBs are laying the groundwork for the next generation of strong U.S. export markets, like Indonesia, Vietnam, and Colombia. These last three emerging markets, which accounted for $8 billion of U.S. goods exports in 2000, now account for $31 billion – a four-fold increase.

Addressing Global Challenges

At a time when government must do more with less, Treasury is determined to use our resources as efficiently as possible. The multilateral institutions are highly effective at multiplying the impact of taxpayer dollars. Treasury's international development investments will leverage nearly $100 billion in multilateral institution development assistance, by combining resources from other donors. This support will reach poor people in urban slums, rural villages, and small cities around the world. When it comes to global challenges such as food security, the environment, and gender imbalances, the world continues to rely on multilateral institutions and strong U.S. leadership within them to confront these issues.

For example, the Global Agriculture and Food Security Program is helping the world's poorest farmers produce more food and earn higher incomes, reducing poverty and hunger in 25 countries. The selection of projects is based on a transparent and competitive process that incentivizes results.

Investments in the Climate Investment Funds (CIFs) and the Global Environment Facility (GEF) support the President's Climate Action Plan and help create open, fair, and well-functioning markets for technologies where American companies excel, including in industries such as wind, solar, and geothermal. Working with the MDBs, these trust funds leverage contributions from other donors, and attract significant co-financing from the private sector.

While the MDBs are frequently at the forefront of best practice policies in the countries in which they operate, Treasury has a long track record of engagement to continuously update and improve these policies. At the urging of the United States, all of the institutions are taking a more prudent approach to budgetary and financial management. The MDBs are continuing to implement new disclosure policies, providing more access than ever before to policies and decisions. This level of transparency increases accountability and improves outcomes. In addition, Treasury has long been engaged in a better results agenda with these institutions. Each of the MDBs has an independent office that objectively evaluates performance and effectiveness. These assessments, which are made public, give both the institutions and those who support them the kind of information that improves and increases results.

As leaders in global standard setting, the MDBs have strong social and environmental safeguards, which we are committed to protecting and enhancing. The MDBs help foster a more level playing field for firms competing for MDB business opportunities by requiring the use of fair and transparent procurement rules. They promote policy reforms to create more business-friendly environments, including by publishing global benchmarking through the World Bank "*Doing Business*" rankings.

Acting now to safeguard our leadership in the MDBs and the IMF

Thanks to bipartisan support, U.S. leadership at the MDBs is strong and enables us to influence how and where resources are deployed—often on a scale that we cannot achieve unilaterally.

Similarly, safeguarding our leadership is why it is so important that Congress acts to approve IMF quota and governance reform. Approving these reforms puts us in a stronger position to influence IMF decision-making on a host of issues critical to our economic and national security. At the moment, our ability to influence decisions is diminished by the fact that other IMF members think that the United States is retreating from our leadership role at the IMF.

Since the creation of the IMF after World War II, successive U.S. administrations and Congresses have supported our participation in this institution. In fact, five of the eight quota increases in the IMF's history took place under Republican Presidents. Every living Treasury Secretary from James Baker on has gone on record urging Congress to approve the IMF quota and governance reforms. As President Ronald Reagan said in a 1983 radio address to the nation calling on Congress to pass IMF legislation: *"The IMF is not foreign aid ... it creates jobs because it keeps the wheels of world commerce turning ... The IMF and its programs help keep Americans at work. This is important legislation for international economic stability, and I hope you'll support it."*

I look forward to working with you on these critical issues and welcome your questions.

Thank you.

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House Committee on Financial Services
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Chairman Jeb Hensarling:

Question 1:

President Obama has put the odds of the Iran talks succeeding at not more than 50-50.[1] He also made clear that if these talks do not succeed, Iran will face more sanctions.[2] In addition, you have said: "...if these talks do not succeed, then we are prepared to impose additional sanctions on Iran and ... all options remain on the table to block Iran from obtaining a nuclear weapon."[3] With that in mind, do you have a sense of what additional sanctions Treasury could impose if needed? What economic tools do we have left in our toolbox to raise the pressure on Iran?

Answer:
The Administration remains intent on fully exploring the possibility of a diplomatic solution that will prevent Iran from acquiring a nuclear weapon and ensure that Iran's nuclear program is exclusively peaceful. We have no intention of accepting a deal that does not address our longstanding concerns about Iran's nuclear program. We have been clear that we would rather have no deal than a bad deal.

Treasury has been aggressive in maintaining pressure on Iran throughout the Joint Plan of Action (JPOA), which was reached by the EU, P5+1, and Iran on November 24, 2013. In fact, the JPOA was designed to leave the core architecture of our sanctions in place — including those on Iran's oil, banking, financial, and energy sectors — so that additional pressure on Iran could be immediately re-imposed if Iran is unwilling to address our concerns about its nuclear program. This existing sanctions framework provides a number of tools to enhance sanctions pressure on Iran, including by placing further limits on Iran's ability to sell its crude oil, access the international financial system, or engage in international commerce.

In the event that Iran rejects the path to a negotiated resolution over its nuclear program, we will not hesitate to enhance economic pressure on Iran. Treasury is committed to working together with Congress and interagency partners to maximize financial and economic pressure on Iran to present the starkest choice possible for Iran to address the international community's concerns about its nuclear program. Treasury continues to demonstrate this resolve throughout the JPOA, having imposed sanctions since the JPOA was reached on approximately 60 Iran-related individuals and entities for sanctions evasion, aiding Iran's nuclear and missile proliferation, supporting terrorism, and engaging in human rights abuses in Iran. We will continue to ramp up

[1] http://www.foxnews.com/politics/2013/12/08/obama-defends-iran-nuke-deal-at-dc-mideast-forum/
[2] http://www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address
[3] http://www.whitehouse.gov/blog/2014/03/06/president-obama-secretary-kerry-and-secretary-lew-underscore-and-reaffirm-strength-u

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our sanctions if the Iranians fail to meet their obligations, including by continuing to target Iran's key economic sectors.

The administration has stated that the sanctions relief being provided to Iran is "limited, temporary, and reversible."[4] In testimony before the Senate Committee on Banking, Housing, and Urban Affairs on December 12, 2013, Under Secretary for Terrorism and Financial Intelligence David S. Cohen stated: "Even taking into consideration the modest relief package, these staggering figures represent a bleak reality for Iran's economy, which we expect will continue to deteriorate over the next six months."[5] How do you evaluate the current state of Iran's economy? What benchmarks are you using to judge the state of Iran's economy and the impact of sanctions relief?

Answer:
The cumulative impact of sanctions on Iran's oil, banking, financial, and energy sectors continue to place significant strains on the Iranian economy, even with the limited sanctions relief pursuant to the Joint Plan of Action (JPOA). Iran's currency has declined by over ten percent since the JPOA was reached; Iran's 12-month inflation rate remains one of the highest in the world; and our oil sanctions alone are costing Iran USD tens of billions over the duration of the JPOA.

The sanctions relief we provided Iran in return for significant concessions on its nuclear program has been modest, and Iran's economy has remained under tremendous pressure. While some predicted that the JPOA would result in a boost to the Iranian economy, major firms and financial institutions have been reluctant to engage in new business with Iran while the negotiations are ongoing and while uncertainty remains about the possibility of a comprehensive solution. Much of the sanctions relief in the JPOA has not resulted in economic gains to Iran: Iran's exports of petrochemicals this year are trending lower than they did last year; Iran's exports of automobiles have actually dropped; and any oil revenue Iran earns continues to go into overseas accounts that are restricted by our sanctions.

Perhaps most importantly, these indicators must be considered against the backdrop of Iran's ongoing economic disorder. Iran's economy is now significantly smaller than it otherwise would have been had it remained on its pre-sanctions growth trajectory; the vast majority of Iran's approximately $100 billion in foreign exchange holdings are inaccessible or restricted by sanctions; domestic Iranian banks are largely cut off from the global financial system with limited access to credit; and foreign investment remains minimal, with Iran's oil and gas sector largely cut off from overseas capital. These are signs of a struggling economy and underscores that Iran remains under significant pressure because the vast majority of our sanctions regime remains firmly in place.

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[4] http://www.treasury.gov/resource-center/sanctions/Programs/Documents/jpoa_faqs.pdf
[5] http://www.treasury.gov/press-center/press-releases/Pages/jl2243.aspx

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There are some Iranian banks that have not yet been designated by the U.S. Are you confident that these banks are not being used to support Iran's illicit activities or evade sanctions?

Answer:
It is longstanding Treasury policy not to comment on investigations into possible sanctions violations. However, I can assure you that Treasury takes very seriously its responsibility to take action against any person, including Iranian financial institutions, that engages in illicit or sanctions evasion activities. To date, Treasury has designated 28 Iran-related financial institutions and has placed nearly every Iranian bank on the Specially Designated Nationals and Blocked Persons List (SDN List) maintained by the Office of Foreign Assets Control (OFAC). These actions have resulted in Iran's continued inability to either maintain, or gain, access to the international financial system.

There are consistent reports that significant quantities of Iranian oil are being exported through mislabeling and other evasion tactics. An April 8, 2014 story from *International Oil Daily* reads: "In an aggressive bid to secure buyers for sanctioned Iranian crude oil, private oil trading firms regularly falsify country of origin documents to show that Iranian crude cargoes are coming from the United Arab Emirates and Oman, several traders involved in the business say."[6] Has the Treasury Department investigated these reports? What steps are you taking to identify and penalize those evading U.S. sanctions on Iran?

Answer:
It is longstanding Treasury policy not to comment on investigations into possible sanctions violations. However, Treasury has taken action against a number of entities involved in activities that assist Iran in evading crude oil sanctions. In late April 2014, Treasury took action against a Dubai-based company, the Al Aqili Group, and its CEO, Saeed Al Aqili, for providing support in connection with deceptive oil deals for Iran. These actions have followed a robust Treasury effort over the past year to prevent sanctions evasion by individuals and companies acting on behalf of the Government of Iran, including efforts to sell Iranian oil in circumvention of U.S. and international sanctions. My team at Treasury is constantly on the lookout for Iranian evasion tactics and has demonstrated that we will not hesitate to take action when we confirm such violations.

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[6] http://www.energyintel.com/pages/login.aspx?fid=art&DocId=843352

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Rep. Sean Duffy:

Question 1:

Does paragraph 69 of the G-20 Leaders Declaration in St. Petersburg reflect Treasury's views? It reads:

> ***We welcome the publication of the initial list of global systemically important insurers (G-SIIs), to which resolution planning and enhanced group-wide supervision will initially apply. We look forward to its annual update and to the finalization of a straightforward, group-wide capital requirement by the International Association of Insurance Supervisors by the next G20 Summit in 2014 that will serve as a foundation for higher loss absorbency requirements for G-SIIs. In addition, we look forward to its further work to develop a comprehensive, group-wide supervisory and regulatory framework for internationally active insurance groups, including a quantitative capital standard.***

Answer:
At the Pittsburgh Summit in 2009, the Group of 20 (G-20) Leaders committed to develop internationally consistent approaches to evaluating global systemically important financial firms "to help mitigate the disruption of financial institution failures and reduce moral hazard in the future." In response, the Financial Stability Board (FSB) developed a framework and called on the technical experts in the relevant international standard-setting bodies to develop methodologies for identifying global systemically important financial institutions (G-SIFIs) in each sector. The International Association of Insurance Supervisors (IAIS) developed the methodology for global systemically important insurers (G-SIIs). The United States is robustly represented at the IAIS by the Treasury's Federal Insurance Office (FIO), the fifty-six U.S. state insurance commissioners, the National Association of Insurance Commissioners (NAIC), and the Federal Reserve Board (FRB). The technical work and recommendations developed at the IAIS will form the basis for any FSB determinations on insurance matters.

The United States has made strong commitments in the G-20 to these international efforts, which reflect the globally connected economy and are important to safeguarding the U.S. financial system from threats resulting from weaker regulation elsewhere. The Treasury Department supports the work of the FSB and the standard setting bodies on G-SIFIs. In particular, Treasury supports the technical work undertaken at the IAIS in order to support financial stability and to promote a level playing field for U.S. firms that operate internationally. This on-going work is informed by FIO, the states, and the FRB. While the FSB and Financial Stability Oversight Council (FSOC) both seek to strengthen financial stability, they have distinct processes, and are independent of one another – decisions reached in one forum do not predetermine decisions made in the other. In addition, the FSB's identification of a G-SIFI does not have any binding legal effect. Any strengthened measures would need to be taken by the appropriate regulator in the G-SIFI's home country. In the United States, FSOC is the only entity that can designate nonbank financial companies for enhanced prudential standards and FRB supervision.

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Question 2:

Federal Reserve Board Chairs Bernanke and Yellen have publicly acknowledged that insurance companies have unique business models that make them different from banks, as have you, and that a bank-centric regulatory model would not work for insurance companies. At the same time, however, the Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) in Europe have begun the process of preparing international capital standards very similar to the capital bank requirements coming out of Basel, Switzerland. The implication is that they would be applicable to U.S. insurance companies, including those that have not been designated systemically important financial institutions under Dodd-Frank or G-SIIs. Given your role as a member of the FSB, what concerns have you voiced on this move toward bank-like capital standards for U.S. insurance groups? Is it the position of Treasury that a quantitative capital standard is needed for U.S.-based insurers who also happen to do business overseas?

Answer:
The United States plays a leadership role in developing international standards at the FSB and at the international standard setting bodies, including the IAIS. International standards have been developed in the insurance sector for nearly twenty years. International standards support robust, high quality oversight that promotes global financial stability, promotes a level playing field, offers consistent supervisory approaches for regulators around the world, and leads to reduced compliance costs for global firms.

The United States is robustly represented at the IAIS, the international standard-setting body for insurance supervisors, by FIO, the fifty-six U.S. state insurance commissioners, the NAIC, and the FRB. We are engaged in developing international standards that will serve the best interests of the United States, our consumers, industry and economy. This important work is occurring at the IAIS, a forum for technical insurance experts.

The work on a comprehensive supervisory framework for internationally active insurance groups (IAIGs) is on-going and is shaped by the input of the U.S. federal and state participants. As part of these discussions, Treasury agrees that any capital standards for insurers should be based on business models of insurance companies and risk metrics that are appropriately tailored to insurance companies. In addition, prior to implementation, the international capital standards will be tested for several years directly with U.S.-based insurers. A market analysis will be conducted to determine whether and, if so, how the standard, and related provisions, would affect both individual insurance firms and the U.S. insurance market. The testing and the study will allow for the implementation of the international standards to incorporate the best interests of the United States.

As has always been true in the insurance sector, international standards are not self-executing. The implementation of an international standard is a function of the national authority. Only U.S. state or federal authorities may impose a standard or requirement on an insurer. In the case of

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the United States, for firms that operate as part of a bank or thrift holding company or nonbank financial company designated by the Financial Stability Oversight Council (FSOC), the FRB has the authority to implement the standard. For other IAIGs, the state insurance regulators would have authority to implement the standard.

Question 3:

Have you consulted with the state regulators on this subject? If you have, please provide details on those discussions, how their recommendations and concerns were incorporated into your actions, and if they were not, why they were dismissed or ignored.

Answer:
The Dodd-Frank Act vests Treasury's FIO with the responsibility to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters, including representing the United States at the IAIS. FIO works closely with other federal agencies and state insurance regulators and coordinates on prudential aspects of international insurance matters. FIO regularly hosts meetings and calls with state regulators and the FRB to coordinate U.S. work at the IAIS. U.S. state regulators, individually and through NAIC staff, participate in and often lead international work streams in which FIO and the FRB staff also participate. FIO's coordination with state regulators involves regular and frequent calls and meetings with both individuals and groups. International insurance supervisory standards have been developed and adopted by the states in the United States for nearly 20 years, and state regulators have been actively involved in the IAIS since its inception in 1994. FIO recognizes that international standards are not self-executing; instead, the standards will be implemented by the states or by the FRB, as appropriate.

Question 4:

How is US policy on insurance at these international forums decided on and presented? Are you, the industry, their state regulators, and other Federal representatives speaking with a unified voice?

Answer:
Treasury's FIO regularly works with other federal agencies and state insurance regulators to promote a coordinated and effective approach to prudential aspects of international insurance matters. Treasury officials, representatives of other federal agencies, and state regulators jointly attend and participate in discussions in multiple fora regarding international insurance issues. The United States plays a leadership role in developing international standards at the IAIS that promote the best interests of the United States. U.S. state regulators, individually and through NAIC staff, participate in and often lead international workstreams at the IAIS in which FIO and the FRB staff also participate. For instance, all 56 state commissioners and the NAIC are represented in the IAIS. The international insurance standards under development at the IAIS are important to promote global financial stability, promote a level playing field, offer consistent

supervisory approaches for regulators around the world, and lead to reduced compliance costs for global firms. International insurance supervisory standards have been developed and adopted by the states in the United States for nearly 20 years, and state regulators have been actively involved in the IAIS since its inception in 1994. FIO recognizes that international standards are not self-executing; instead, the standards would need to be implemented by the states or by the FRB, as appropriate.

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Rep. Rubén Hinojosa:

Question 1:

Mr. Secretary, some of my colleagues on the other side of the aisle have refused to allow important International Monetary Fund (IMF) Quota Reforms to move forward. How does this refusal hamper the ability of the IMF to properly respond to Russia's unlawful actions?

Answer:
The IMF is central to our response to the situation in Ukraine. It is providing critical financial assistance to Ukraine to allow time for much needed reforms. The 2010 IMF quota and governance quota reforms will put the IMF's financial structure on a more stable and sustainable footing, and at the same time remove the uncertainty that Russia and other countries could potentially block activation of the New Arrangements to Borrow (NAB), undermining the IMF's lending capacity and ability to respond to crises. The reforms preserve the U.S. veto and maintain U.S. leadership and influence to continue to shape IMF decisions and activities. In addition, the reforms preserve the IMF's central role and keep emerging economies anchored in the multilateral system that the United States helped design and continues to lead.

Question 2:

It seems to me, without proper assistance, Ukraine is headed toward economic crisis. How might this crisis affect the other fragile economies in the region?

Answer:
The $17 billion IMF reform program is the cornerstone of the international community's $27 billion assistance package for Ukraine, as only the IMF can provide the technical expertise and large-scale financing to support the reforms needed to stabilize the Ukrainian economy. Despite extraordinary circumstances, the Ukrainian authorities have already begun taking the necessary steps to build a secure economic foundation, including urgently needed market reforms that will restore financial stability, improve economic potential, and allow Ukraine's people to better achieve their economic aspirations. Ukraine has a new government that appears firmly committed to laying the groundwork for sustainable growth and supporting the country's integration with the West.

Still, significant challenges remain. The IMF has underscored that the evolution of the conflict in eastern Ukraine and tensions with Russia is the principal risk to the viability of Ukraine's reform program. Russian cooperation in resolving the security, energy, and economic disputes – coupled with continued implementation of difficult reforms by the Ukrainian government – is essential to restoring growth and stability to Ukraine.

As a consequence of Russia's aggressive actions against Ukraine, and the resulting uncertainty created in global markets, evidence of economic and financial spillovers to neighboring countries in the region is beginning to surface in the latest data as confidence deteriorates. Moreover, given the region's heavy reliance on Russian natural gas and the lack of alternative supplies, the risk of an energy disruption to the region remains a prominent risk that we must monitor closely. To that end, we continue to support Ukraine and to pursue a diplomatic solution with Russia that respects Ukraine's sovereignty and territorial integrity.

Question 3:

Mr. Secretary, the United States has an outsized investment in the IMF and a large stake in its financial health. Does the quota reform request increase U.S. commitments or exposure to the IMF?

Answer:
The 2010 IMF quota and governance reforms do not require the United States to commit a single new dollar to the IMF. The reforms will increase the U.S. quota in the IMF while simultaneously reducing the U.S. commitment to the IMF under the New Arrangements to Borrow (NAB), for no change in our overall financial commitment and exposure to the IMF.

Question 4:

The IMF has a long, storied history. Its loans have supported economic stability across the globe. Can you describe the repayment record for these loans?

Answer:
The IMF has an excellent repayment record. Since the IMF was established 70 years ago, it has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression.

Question 5:

Mr. Secretary, is there reason to be believe the loans would not be paid back in the future?

Answer:
No. When the IMF lends, it does so subject to robust policy conditions and safeguards to assure repayment. The IMF is regarded as the world's preferred creditor, meaning that the IMF's member countries acknowledge and agree that it gets repaid first. In addition, the IMF's balance sheet is rock-solid, with substantial reserves and unrealized gold profits that exceed total IMF credit outstanding.

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Question 6:

In your testimony, you mention that President Reagan supported the IMF, and pressed Congress to increase U.S. quotas, in order to increase jobs at home and economic stability abroad. Has the IMF also served national security purposes in the past? How so?

Answer:
The IMF plays a vital role in promoting long-term economic prosperity in countries around the world. After the fall of the Soviet Union, the IMF provided critical assistance to Poland, Czechoslovakia (now the Czech Republic and Slovak Republic), and the Baltics, allowing successful market economies to flourish. More recently, the IMF helped prevent a break-up of the euro area and mitigate the spillover effects of the European crisis on our shores. In the Middle East and North Africa, new IMF programs in Jordan, Tunisia, and Morocco in the last two years have helped prevent economic crises from further harming the political environment to the detriment of U.S. interests. Countries distracted and destabilized by financial crises are less reliable partners. This is especially true in unstable regions where economic dissatisfaction can lead quickly to political instability. By providing financial support and hands-on policy advice, the IMF keeps our allies and partners strong.

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Rep. Randy Hultgren:

Question 1:

In the Iran Threat Reduction Act of 2012, Congresswoman Ros-Lehtinen successfully offered an amendment to remove the "de minimis" exception for Cuba sanctions, which applies to insurance companies with a minimal presence in Cuba. Instead the Treasury Department's Office of Foreign Asset Control (OFAC) would have to grant case-by-case waivers to applying companies.

My understanding from the business community is that OFAC has not responded to pending requests for advisory opinions on whether a license is required for de minimis Iran or Cuba insurance coverage. Companies — some of which are operating in my home state of Illinois — have had applications pending for 18 months; others have been awaiting guidance for as long as six years. This inaction by OFAC can only be interpreted as a de facto policy position. What, exactly, is the Treasury Department's policy rationale here, and what can we expect from the Treasury Department on this topic in the future?

Answer:
The provision of all services, including insurance services, to Cuba and Iran are prohibited by the Cuban Assets Control Regulations, 31 CFR §515.201, and the Iranian Transactions and Sanctions Regulations, §560.204, unless otherwise authorized or exempt. OFAC has considered the provision of insurance coverage involving sanctioned countries on a case-by-case basis, and has issued specific licenses in response to insurer requests for protection and indemnity (P&I) insurance, aviation insurance, and travel insurance, based on *de minimis* contact with sanctioned countries. The rationale for requiring specific licenses for insurance coverage with *de minimis* contact with sanctioned countries is that there are so many complex variables associated with global coverage that OFAC must examine each type of coverage on a case-by-case basis to ensure that sanctions policy objectives are protected.

Because of the complexity of the issues, insurance licensing matters frequently take many months to resolve. OFAC is working to resolve all pending insurance matters as expeditiously as possible consistent with the U.S. government's foreign policy and national security objectives.

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Rep. Gwen Moore:

Question 1:

In November 2012, in the wake of the HSBC case and the other bank money laundering and sanctions-violating cases that preceded it, the government announced that it was undertaking what was intended to be a year-long process to review whether U.S. anti-money laundering laws were adequate and effective enough to hold banks liable for these kinds of massive infractions.

We have heard nothing since. Could you update us on that process, which we understand Treasury was leading, and let us know when Congress will be informed of your findings?

Answer:
Over the course of the past 18 months, Treasury, the federal functional regulators, and the enforcement agencies have undertaken a review of the Bank Secrecy Act, its implementing regulations and guidance, and the accompanying civil and criminal enforcement mechanisms that exist for enforcing these obligations in the United States. These efforts have informed current and forthcoming policy developments, including the customer due diligence proposed rule [of which the Office of Management and Budget recently completed its review] [that was published in the Federal Register on July, 2014].

Question 2:

The recent budget proposal included language about trying to address America's anonymous shell company problem by having the IRS collect a limited amount of ownership information on companies. Given that information collected by the IRS can only be used for tax purposes, and cannot easily be shared with law enforcement or other government agencies, and in light of the fact that American anonymous shell companies are used for all sorts of crime all over the world that are not tax related, do you really think this proposal is an effective or worthwhile approach to the problem?

Would it help the Department of Justice and other law enforcement to identify the American anonymous companies used to hide the money of the Ukrainian elite that you have been recently championing?

Answer:
The Administration's FY 2015 Budget proposal regarding beneficial ownership of U.S. companies, if passed into law, will enhance financial transparency and assist law enforcement in combating a range of financial crimes, such as criminal tax evasion, money laundering and high-level corruption, which often involve illicit actors' deliberate misuse of U.S. shell companies to obscure the true beneficial owner. Some beneficial ownership information is already collected for most legal entities formed in the United States. The proposal would require all legal entities

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formed in the U.S. to obtain an Employer Identification Number (EIN) and, in so doing, provide beneficial ownership information. Further, the proposal contemplates expanding law enforcement's existing access to such beneficial ownership information if the purpose of the request is to combat certain money laundering, terrorist financing, and other financial crimes. The proposal would amend Section 6103 of the Internal Revenue Code to permit disclosure of beneficial ownership information without a court order (as is required by current law).

I would defer to the Department of Justice and other law enforcement agencies regarding the type of information needed to effectively conduct complex financial investigations to locate the proceeds of corruption. More broadly, shell companies present an attractive vehicle for corrupt political figures to hide their assets by providing a veneer of legitimacy and a means to access the financial systems of other countries. In general, the lack of beneficial ownership information for U.S. companies has presented an impediment to both U.S. law enforcement and our international counterpart across a range of financial crimes, including money laundering, corruption and tax crimes. The absence of beneficial ownership information not only hampers our own investigations, but also hinders U.S. law enforcement's ability to respond to requests from foreign jurisdictions regarding the beneficial ownership for U.S. shell companies. By requiring the provision of beneficial ownership information for all entities formed in the U.S. and amending the Internal Revenue Code to permit the Internal Revenue Service to more efficiently share beneficial ownership information with law enforcement, the proposal could assist U.S. law enforcement in identifying the true owners of companies used to hide the money of foreign kleptocrats.

Question 3:

I am always interested in international efforts to implement the cross-border liquidation of systemically important financial institutions, which is Title II of Dodd-Frank Orderly Liquidation Authority in the U.S. I am familiar with the Federal Deposit Insurance Corporation (FDIC) and Bank of England white paper, but I think that these efforts are central to global stability.

There is a rating agency report that indicates Asia and Latin America may be taking a different approach. I think that the FDIC/Bank of England strategy has tremendous merit.

An update on Treasury's role in the global implementation of orderly liquidation facilities would be appreciated as well.

Answer:
The United States is far ahead of other jurisdictions in implementing the international standard on resolution regimes: the Financial Stability Board's *Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes)*. We encourage countries to implement fully the *Key Attributes* standard in the near term to make feasible the resolution of financial

institutions without severe systemic disruption and without exposing taxpayers to loss, while protecting vital economic functions. We welcome the European Union's (EU) finalization of its Bank Recovery & Resolution Directive (BRRD). We also welcome the creation of the Single Resolution Mechanism, a centralized decision-making authority and resolution fund, as an important part of the EU Banking Union.

In 2014, we continue to work on international arrangements that establish how home and host authorities will cooperate to wind down a globally active firm in an orderly way. The failure to work out such arrangements now could pose a significant future risk to our financial system. Treasury is emphasizing this as a priority, and we are working with our domestic regulatory partners and international counterparts to get this in place. For example, in October 2014, officials from the United States and United Kingdom participated in an exercise to explore the issues and challenges involved at key decision points in a coordinated cross-border resolution of a U.S. or UK G-SIB.

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Rep. Bill Posey:

Question 1:

Since 2011, the Financial Action Task Force (FATF), the global watchdog organization for combating money laundering and terrorist financing, has expressed concern regarding Argentina's failure to meet its standards to combat money laundering and terrorist financing. Other countries who have failed to meet this standard recently include Afghanistan, Angola, Cuba, and Sudan.

Are you concerned that that Latin America's fourth largest economy — and member of the G-20 — is not abiding by these international standards?

If so, what do you plan to do to ensure Argentina meets the required standards to combat terrorist financing and money laundering?

Answer:
The FATF published its third mutual evaluation of Argentina in 2010. That evaluation determined Argentina had a weak legal, regulatory and preventive anti-money laundering/countering the financing of terrorism (AML/CFT) framework. As a result, the FATF publicly identified Argentina and developed an action plan to address the strategic AML/CFT deficiencies in consultation with Argentina. In June 2011, Argentina made a high-level political commitment to work with the FATF on the action plan.

Since then, Argentina has taken steps towards improving its AML/CFT regime, including by amending and enacting laws to criminalize money laundering and terrorist financing in a manner consistent with international standards, issuing a presidential decree creating a framework for freezing terrorist-related assets, issuing regulations regarding customer due diligence requirements for multiple sectors, enacting a new capital markets law that improves licensing and supervision of the securities sector, enhancing co-operation mechanisms, and issuing a resolution that improves the supervisory process on AML/CFT.

At its June Plenary, the FATF agreed that Argentina has largely addressed its action plan developed with the FATF. The FATF will send a team to Argentina to confirm that the process of implementing the required reforms and actions is underway. The United States, as a member of the FATF, urges Argentina to continue to improve its AML/CFT controls in a manner consistent with international standards.

Questions for the Record for Treasury Secretary Jacob Lew
House Committee on Financial Services
"The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System"
Hearing Held on May 8, 2014

Rep. Dennis Ross:

Question 1:

In 2001, Argentina defaulted on more than $81 billion — the largest sovereign default at the time — and has spent more than a decade evading its U.S. and international creditors. To date, Argentina refuses to negotiate settlement of its debt to U.S. and other investors, claiming a 27 cents-on-the-dollar take-it-or-leave-it offer was sufficient. Argentina owes nearly $600 million to U.S. taxpayers and much more to private U.S. investors. Argentina voluntarily submitted to U.S. laws when issuing their bonds but continues to evade U.S. court judgments. In fact, Argentina's lawyer told the Second Circuit Court of Appeals the country would not voluntarily comply with any decisions the country finds unfavorable. The Court of Appeals has ruled that Argentina is a "uniquely recalcitrant debtor." Do you agree with their assessment?

Answer:
The United States has been clear that it does not condone Argentina's actions in the international financial arena, and it has long been our position that it is in Argentina's interest to normalize relations with all of its creditors. Regarding Argentina's debts owed to private bondholders, this issue is the subject of ongoing litigation in several jurisdictions, and I can assure you that we are following this issue closely.

Argentina has made some recent efforts to normalize its relationship with official creditors. In May, Argentina reached an arrangement to fully repay bilateral loans owed to its Paris Club creditors, including the United States government. In July, Argentina made its first scheduled payment, as a result of which the United States recovered over $40 million for the U.S. taxpayer. We expect to recover over $600 million for the U.S. taxpayer by the end of the arrangement.

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