

**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
ONE HUNDRED FOURTEENTH CONGRESS
FIRST SESSION

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MARCH 17, 2015
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**THE ANNUAL TESTIMONY OF THE
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ON THE STATE OF THE INTERNATIONAL
FINANCIAL SYSTEM**

Tuesday, March 17, 2015

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

The committee met, pursuant to notice, at 10:04 a.m., in HVC-210, Capitol Visitor Center, Hon. Jeb Hensarling [chairman of the committee] presiding.

Members present: Representatives Hensarling, Royce, Lucas, Garrett, Neugebauer, McHenry, Pearce, Posey, Fitzpatrick, Luetkemeyer, Huizenga, Duffy, Hurt, Stivers, Fincher, Stutzman, Mulvaney, Hultgren, Ross, Pittenger, Wagner, Barr, Rothfus, Messer, Schweikert, Dold, Guinta, Tipton, Williams, Poliquin, Love, Hill; Waters, Maloney, Sherman, Meeks, Capuano, Lynch, Scott, Green, Cleaver, Moore, Ellison, Perlmutter, Himes, Carney, Sewell, Foster, Kildee, Murphy, Sinema, Beatty, Heck, and Vargas.

Chairman HENSARLING. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is for the purpose of receiving the Secretary of the Treasury's annual report on the state of the international financial system.

I now recognize myself for 3 minutes to give an opening statement.

Again, the committee welcomes back the Secretary for his annual report on the IMF and the larger international financial system.

One of the greatest threats to economic stability today can clearly be seen on the monitors to my left and to my right. That, of course, is a real-time national debt clock.

No President in our history has indebted our Nation more than Barack Obama, with more debt in 6 years than in our Nation's first 200 years.

My laptop is awash with both official and private reports calling this level of debt totally unsustainable.

Disappointingly, the Secretary's prepared testimony contains nary a word about the threat that the unsustainable national debt presents to our economy and to hardworking middle-income families.

In fairness, the Obama Administration is not alone in helping put a sovereign nation into insolvency. Europe has a number of practitioners as well. And when Europe runs out of money, many turn to the IMF, whose major source of funding happens to be U.S. taxpayers.

Americans who clearly see the impending debt crisis and who rightly suffer from bailout fatigue are scratching their heads at the prospect of being called on continually to fund and institutionalize too-big-to-fail on a global scale. Thus, the activities of the IMF must be carefully scrutinized by our committee.

What calls for even greater scrutiny is the role of the G-20's Financial Stability Board (FSB) and its American cousin, the Financial Stability Oversight Council (FSOC).

These organizations wield immense power over our global economy and operate largely without transparency or accountability as part of a shadow regulatory system.

As I assume all members of this committee know, our witness heads up the FSOC, and Treasury is a member of the FSB.

FSOC is especially concerning because among other matters, it seemingly takes direction from the FSB, the Financial Stability Board, again, a fairly secretive unaccountable coalition of global bureaucrats that has found in FSOC a conduit to export its views on regulations and risk models to the United States.

Just as one-size-fits-all mandates imported from Washington typically do more harm than good, the U.S. economy does not need a one-world view of risk imported from Europe. We tried that with Basel. Think Greek sovereign debt and Fannie Mae and Freddie Mac mortgage-backed securities. We know where that got us.

Yet, FSOC has seemingly rubber-stamped decisions made by this international board when it comes to deciding whether large U.S. non-bank financial institutions should be designated as too-big-to-fail. This does not appear to be coordination; it appears to be capitulation.

Since today's SIFI designations are tomorrow's taxpayer-funded bailouts, this has potentially disastrous consequences for the American people.

The imposition of one global standard of financial regulation by this Administration will undoubtedly harm American innovation and American economic growth. It can impinge on U.S. sovereignty and bypass the constitutional check and balance of the United States Congress.

Even more importantly, Americans will find themselves paying more to insure their homes and families, investors who rely on mutual funds to save for college educations or retirements will find they have earned less, and our small businesses on Main Street will suffer, as sources of long-term capital begin to dry up. We must not allow this to happen.

I now yield 3 minutes to the ranking member for an opening statement.

Ms. WATERS. Thank you very much, Mr. Chairman. And I would like to welcome Secretary Lew.

After four failed attempts by the Obama Administration to win congressional approval of quota and governance reforms for the IMF, we may have to recognize a new and difficult reality.

The case for approving reforms supported by both Republican and Democratic Administrations in which the United States retains its unique veto power and Europe loses two seats on the executive board would seem open and shut.

But the fund's most vociferous critics, congressional Republicans, don't agree. They argue that the quota change would put more taxpayer dollars at risk and weaken America's influence within the fund.

Both claims are wrong. In fact, the United States would retain its veto power, and its share of the quota increase would be fully offset, resulting in almost no new cost to taxpayers.

The real risk to the United States lies in continued congressional inaction, which has infuriated many of the fund's other member countries.

In fact, last year the G-20 group of leading economies issued an ultimatum to the United States: Approve the 2010 quota deal by year's end, or the IMF will begin to weigh options for moving forward without the United States. In early January, the IMF's board began to study its options.

The failure by Congress to ratify the IMF reforms is seen as a weakening of the U.S. commitment to multilateralism, spurring doubt about our leadership on global economic issues.

In response, a number of developing countries, led by China, have begun to act independently to challenge Western dominance in the world economy.

Last year, the BRICS nations announced plans to launch a Shanghai-based development bank of their own, which they hope will rival the influence of the World Bank. And China is also moving forward to create an Asian infrastructure investment bank to rival the Asian Development Bank.

A world in which countries such as China and Russia are increasingly acting outside the established multilateral system is a world that could easily drift beyond control.

It is ironic that some of the reasons Republicans have stated for not supporting the IMF quota package have now become the actual consequences of not supporting the package.

But the more immediate question is whether the U.S. voice will resonate within the IMF at a time when we alone have allowed a fundamental governance reform to languish in the institution.

I look forward to hearing more from you about just what is at stake.

I thank you, and I yield back the balance of my time.

Chairman HENSARLING. The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, chairman of our Monetary Policy and Trade Subcommittee, for 2 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman.

And Secretary Lew, I welcome you back before the committee today.

There are many important international financial issues that need to be addressed. For example, Jonathan Hill, European Union Commissioner on Financial Services, has pointed out that when moving from a regulatory environment to a growth agenda, as was noted, and I think as he rightly points out, we have to have the

courage and self-confidence to make changes where we see changes are necessary.

But I want to focus on one specific concern of mine, which applies to the IMF, the International Monetary Fund.

In 2009, Congress authorized a \$100 billion commitment to the IMF in an account called the new arrangements to borrow. In the past 5 years, the Administration has requested \$63 billion of that to be transferred to a permanent paid-in capital account, only later to be used to bail out European countries that are deeply in debt, like Greece.

And I would like to explore today why hardworking, middle-income American taxpayer dollars should be used to bail out other countries, especially after suffering from bailout fatigue in our own backyard dealing with Fannie Mae, Freddie Mac, FHA, and a number of others. Instead, shouldn't we be focusing on encouraging these other countries to better manage their borrowing and their spending?

Brazil's representative to the IMF stated, according to a memo that has been leaked from 2010—May 10, 2010—that went to The Wall Street Journal, that, “The IMF program is a bailout of Greece's private sector bondholders, mainly European financial institutions.” And rather than require private sector creditors like European banks to take a loss, I am concerned that the Administration chose to bail out these European banks.

As the memo shows, representatives from several other nations, including Canada and Australia, warned that the bailout package contained “immense risks.” Despite the concerns from several of our allies, the Administration chose to support this bailout. And how do taxpayers know this? Not because of transparency, but because of information that was shared with them only when a 5-year-old memo was leaked from May 2010.

I think this lack of transparency is, sadly, something that we have come to expect. And it is my goal to change that. So I would appreciate that today.

Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, for 2 minutes.

Ms. MOORE. Thank you so much, Mr. Chairman.

And top of the morning to you, Secretary Lew. Welcome back to the committee.

I know that there are many international issues that are outstanding, but it must be good to be sitting here with good domestic news—59 months of private sector growth, a record streak private sector growth, \$2.89 trillion in 2014, the most since 1997. And I think your stewardship in the debt ceiling debate has been a powerful voice of sanity, and I think that puts us in a really good position to have the United States be the world's reserve currency, which I think is extremely important.

Here is a question that I raised with Fed Chair Yellen when she was here, and I would like to raise it with you. I know that Treasury is taking an aggressive stance to deter, but I want you to punish banks and bank employees that are involved in these tax avoid-

ance and money laundering schemes as those activities facilitate global terrorism and crime.

But I also would like for you to double-down on sort of being more surgical so as to not cut off legitimate remittances. This is an issue that Mr. Ellison has been championing, and I have heard from my own constituents that their relatives are literally starving. And so, we need to do that.

I have also heard from insurers that they are increasingly concerned about ongoing international negotiations on global insurance capital standards that may impact U.S. insurers. So, I hope that you will be a strong voice internationally for U.S. insurance companies.

And last, I am concerned, too, about the IMF. It supports jobs, exports, and financial markets. And indeed, it buoys our national security. And so I agree with you on that, and I yield back.

Chairman HENSARLING. Today, we welcome the testimony of the Honorable Jack Lew, Secretary of the Treasury. As you know, Secretary Lew has appeared before this committee on several previous occasions, so I do not believe he needs a formal introduction.

Without objection, Mr. Secretary, your written statement will be made a part of the record. Secretary Lew, you are now recognized for 5 minutes to give a summary of your testimony.

Thank you.

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

Secretary LEW. Thank you, Chairman Hensarling, Ranking Member Waters, and members of the committee. I appreciate the opportunity to testify before you today.

As we meet here today, the United States economy continues to make considerable progress. By almost every metric, America has come a long way since the depths of the worst recession since the Great Depression. Last year we saw the best year of job growth since the 1990s, and over the past 5 years, America's businesses have created 12 million new jobs, the longest stretch of sustained private sector job growth in our Nation's history.

At the same time, our economy keeps expanding and forecasts project above-trend growth for this year. American exports set another record last year for goods and services sold overseas, and our fiscal deficit, which has fallen by almost three-quarters, is forecast to decline even further in the next fiscal year. These achievements underscore America's enduring economic strength, and we can build on this progress with the right policies and bipartisan cooperation.

The international financial institutions, which include the International Monetary Fund and the multilateral development banks (MDBs), are a critical part of this effort. Our investments in these institutions are some of the most cost-effective ways to reinforce economic growth at home and to respond to critical challenges abroad. To that end, it is essential that Congress pass the IMF quota reforms.

These reforms will put the IMF's finances on more stable footing over the long term; help modernize the IMF's governance structures; and preserve America's strong influence within the IMF, and

more broadly, as a leader of the international financial institutions. As the international community waits for Congress to approve these reforms that we helped to design, emerging and developed economies alike are looking to other alternatives as a means of driving the global system forward.

Our continued failure to approve the IMF reforms is causing other countries, including some of our allies, to question our commitment to the multilateral institutions that we worked so hard to create. And until these reforms are in place, the United States runs the risk of seeing its preeminent role in these institutions eroded, especially as others are establishing new and parallel financial institutions.

The fact is, the IMF reforms will help convince emerging economies to remain anchored in the multilateral system that the United States helped design and continues to lead. And these reforms are a win-win for the United States. They retain our veto power and they do not increase our financial commitment. That is why we are determined to continue to work with Congress to get these reforms passed as soon as possible.

As a clear example of the IMF's role in promoting American security and economic interests, the IMF is providing Ukraine with the critical financial and technical support that it needs. The IMF is the cornerstone of a broader international effort to support Ukraine amid extraordinary circumstances, and it recently approved an augmented longer-term program that will allow Ukraine to pursue a sustained set of economic reforms.

Similarly, our investments in the World Bank and the regional development banks are key to advancing America's economic and strategic interests. My full statement that I submitted for the record lays out in detail how the MDBs help grow export markets, increase opportunities for American businesses, create jobs in the United States, and protect our national security.

But let me highlight quickly a few of the areas where these institutions have recently advanced our priorities. In Ukraine, the MDBs have stepped in to address the crisis and stabilize the country, increasing their commitments to nearly \$5 billion. In Central America, they are working to spur stronger economic growth which will help address the root causes of the flow of migrant children to our border. And in Africa, they have taken significant action to fight the spread of Ebola and strengthen health systems.

To be sure, the MDBs are essential to global stability. And whether it is fostering inclusive economic growth, promoting food security, or increasing natural disaster preparedness, they are making a difference. It is no surprise that through our Nation's history, both Democratic and Republican Presidents have made it a priority to invest in these institutions.

And as you can see from our budget request, we are using what we have learned from the MDBs and specialized funds to launch a well-designed and cost-effective green climate fund. This fund will enable the poorest countries to build resilience and help cut carbon pollution globally, advancing some of our vital security and development objectives.

In closing, let me say that the world is looking to the United States for leadership. And it is as essential as ever for the United

States to demonstrate that leadership across all the international financial institutions. This will, of course, require bipartisan cooperation, and I look forward to working with all of you to make that happen.

Thank you, and I would be glad to answer any questions that you have.

[The prepared statement of Secretary Lew can be found on page 76 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

I yield myself 5 minutes for questions.

Mr. Secretary, I think you know that many of us on this committee have a number of concerns about exactly where FSOC and the FSB are headed. We have spoken before about the Financial Stability Board. You have said previously that it is a group that acts by consensus. Most recently, FSB has initiated a new total loss-absorbing capacity (TLAC) standard dealing with the G-SIBs. Can I assume, then, since it is a group that acts by consensus, that Treasury has consented to the new TLAC standards?

Secretary LEW. Mr. Chairman, I would say the United States has played a leadership role in pushing towards having TLAC be adopted. This is a preliminary step, so it is going to require—

Chairman HENSARLING. Okay, so you consented to these standards. I think as you know then, FSB, after creating the standards, issued an exemption to three of the largest banks in the world, three Chinese banks, one of which is the largest bank in the world, the Industrial and Commercial Bank of China, with over \$3 trillion in assets.

So if the United States consented to the TLAC standards, did Treasury also consent to the exemption for the three Chinese banks?

Secretary LEW. Mr. Chairman, the TLAC provisions that have been agreed to are preliminary. They require considerable additional action to be implemented. I have to check on—

Chairman HENSARLING. I understand that, but did Treasury—so you don't know the answer to whether Treasury consented to the exemption?

Secretary LEW. Mr. Chairman, the FSB acts by consensus. I am not familiar with the specific nature of the action you are describing. I would have to get back to you.

Chairman HENSARLING. Okay. If you would get back to me, I would appreciate it. It has been reported in the press already, again, that these three Chinese banks have been exempt. It is just curious to me that if the body works by consensus, and Treasury is a member, that Treasury would not have consented. And I will let you get back to me, Mr. Secretary, on precisely what Treasury did.

Secretary LEW. I would just underscore, Mr. Chairman, that TLAC requires implementation. What was put forward was a preliminary document that I think would very much strengthen the financial stability of the global system—

Chairman HENSARLING. I understand that, Mr. Secretary—

Secretary LEW. —but it is not yet in place.

Chairman HENSARLING. Then I guess I would be curious, because you have also previously testified, I think in your last appearance

before our committee, that, “FSB does not make rules for any of the national governments; every country has its own ability to make its own decisions for itself.”

So I am just curious, if these are preliminary suggestions and not rules, why is it that the FSB found it necessary to grant exemptions, specifically to the Chinese?

Secretary LEW. Look, Mr. Chairman, what the FSB does is it raises global—the goal for global standards to a high level. We work—

Chairman HENSARLING. Apparently not for the Chinese.

Secretary LEW. We work in the FSB to try to get the kinds of standards that we think are appropriate in the United States to be adopted around the world so that the whole world will have high standards.

Chairman HENSARLING. Again, Mr. Secretary, if you would get back to me on that specific issue—

Secretary LEW. I would just say, Mr. Chairman, that—

Chairman HENSARLING. Mr. Secretary, I’m sorry, but the time is—

Secretary LEW. Okay. I was just going to try to give you a little bit of an answer to your question.

Chairman HENSARLING. I have been waiting for several minutes. You said you didn’t know if the Treasury consented. The key question is—

Secretary LEW. You are talking about—

Chairman HENSARLING. —did Treasury consent to the exemption or not?

Secretary LEW. The design of the preliminary approach that he liked is something we drove forward. We not just consented; we drove it forward.

Chairman HENSARLING. The specific question had to do with the exemptions. That is the essential question.

Mark Carney, who Chairs the Financial Stability Board, recently issued a memo, I believe last month, where he declared he expected, “full, consistent and prompt implementation,” of the agreed-upon FSB reforms.

He went on to say, “FSB will support the determined efforts of its members through enhanced monitoring of implementation and its efforts across all jurisdictions. We will regularly report our key findings to the G-20.”

So you again have stated that the FSB does not impose rules. However, in following their lead in designating non-bank SIFIs here in the United States, which is what FSOC has done, it sounds a little bit like a fait accompli to me.

I have a similar question: Did Treasury consent to the issuance of this memo? Are you aware of the memo from the Chairman of the Financial Stability Board?

Secretary LEW. Mr. Chairman, the effort on TLAC has been something that we have been very much driving forward. I was personally engaged with a number of countries, because we think it is very important that the largest financial institutions in the world have deep reserves that can be drawn in so that taxpayers are not held accountable if there are failures in the future.

I am happy to get back to you on all the specific pieces of action. Obviously, I am not sitting there in the meetings myself.

Chairman HENSARLING. Okay. So are you aware or unaware of the memo that I just quoted?

Secretary LEW. Mr. Chairman, I have read a lot of memos on—from the FSB and on TLAC. I would have to look at the specific memo that you are reading from.

Chairman HENSARLING. Okay. My time has expired.

The Chair now recognizes the ranking member for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman, and welcome again, Mr. Secretary. First, a word about the World Bank, and then I have some questions on the domestic agenda here.

You made reference in your testimony to the World Bank's ongoing safeguards review, which will result in revised policies that will govern World Bank lending for years to come.

I welcome your statement that you are working hard to ensure that the revised safeguards will strengthen the protection provided by these policies, having read myself the first draft of the updated safeguards proposed by bank management.

I must tell you, you have your work cut out for you. I think the bank's credibility takes a hard hit whenever the bank defends the current draft as a broadening and strengthening of the existing policies. It doesn't strengthen them, and nobody outside the bank believes that they do.

I just wanted to share that with you.

On the domestic front, as you know, unregulated mortgage credit, oftentimes offered with predatory features to vulnerable households without the sophistication to understand the terms, was a key cause of the 2008 crisis.

Fortunately, the Dodd-Frank Act took key steps to address this problem with the creation of the Consumer Financial Protection Bureau (CFPB).

At the same time, the CFPB has taken many actions to tailor its rulemaking when it comes to small banks and credit unions and has the authority to amend these regulations if access to credit, especially for our most vulnerable population, become too constrained.

Even though the CFPB has been exceptionally reasonable in their approach, last year the House passed a number of bills to provide additional exemptions to consumer protection, citing lack of credit for low-income borrowers.

Can you tell us what data the Treasury has on credit availability since the crisis and whether you think Congress needs to pursue legislation to create more exemptions from consumer protection rules? We need some help.

Secretary LEW. Congresswoman Waters, I think that if you look at the current experience in the mortgage market, it is a little bit too hard, actually, for people to get credit in some cases.

People with strong credit records and the ability to repay are having a harder time than they should. It takes the most pristine credit.

If you look back to what we were trying to stop after the financial crisis, it was to stop people from getting in over their heads with mortgages they didn't understand, with hidden fees and all

kinds of charges. I think that if you look at the way the regulatory agencies have been looking at this, they have been trying to be clear in giving guidance to financial institutions who have, if anything, been tighter in their credit standards than might have been intended.

On the other hand, they are not going back and saying we should go back to the kinds of policies that let people get into mortgages they couldn't afford and to do it in ways that they couldn't understand through all kinds of hidden fees and charges.

So I think it is a balance. The regulatory process is very attuned to this. You are seeing discussions of this in both the FHA and the FHFA in terms of the putback-risk discussions.

My own view is that it is part of a larger trend than the financial services industry, where they are getting more conservative in some ways, in some areas, than was intended. That will come up in terms of some other questions that I believe will come up this morning.

We need to be clear about what we are trying to do and why. I think that it is very important to maintain the regulatory structure so that we don't go back to a system where lenders can get mortgages out there so that people are over their head and highly likely to default.

On the other hand, if people are creditworthy, they should have access to credit.

Ms. WATERS. So we are witnessing this inability of our constituents, who certainly can afford to get mortgages, being shut down and not being given credit by many of our banks, as you have stated.

At the same time, we still see actions by banks that are similar to what we thought we were stopping, following the 2008 crisis.

We had long discussions about everything from no-doc loans to other kinds of exotic products that were being put out there, and it seems that the banks still want to have some kind of way to continue these efforts and at the same time, put us all in a bind back, shutting down on credit until we basically agree with them.

Secretary LEW. I actually think if you look at the rules that have come out, the CFPB rules for example, I think they very clearly make it impossible to issue the kinds of dangerous products that were issued before. It has made our system safer. That is not the problem.

The question is, for people who are getting mortgages that are straightforward, English-language document mortgages with fees and charges that are clear and costs that they can afford, are the credit standards so tight that people who are creditworthy are not getting credit? We are very much of the view that people who are creditworthy should have access to credit.

We are very much opposed to the idea that we should go back to loosening the rules to allow the kinds of mortgages that help create the financial crisis.

Ms. WATERS. So do you believe that what the CFPB has been doing and the approach that they are taking is the right approach and somehow that is going to help open up credit opportunity or—what do we do about opening up access to credit?

Secretary LEW. I think that they have made a lot of important changes that reform some of the basic problems. I think that to the extent that the financial institutions are concerned, they want to be even more constrained than was intended, it is sensible for agencies like FHA and FHFA to be looking at things like putback risk to try and clarify it.

Chairman HENSARLING. The time of the gentlelady has expired.

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

Mr. HUIZENGA. Thank you, Mr. Chairman. Secretary Lew. I want to hit on a couple of things.

First, I want to discuss a little bit about international insurance, then some of the financial services trade negotiations, the IMF, as I talked about in my opening statement.

But I am going to start off with the insurance situation, and for coming out of the State legislature, I am very familiar with the State regulatory-based oversight that we have through our States. But in the latter half of 2014, we saw Treasury representatives and the Federal Reserve vote at the International Association of Insurance Supervisors (IAIS) to shut down the transparent process and eliminate stakeholder participation in the formulation of these insurance standards.

And accordingly, how does Treasury justify the fact that international discussion is really undercut and not supported by the State regulators, even as they had formerly requested opposition to closing those meetings at IAIS, and their opposition to the one-size-fits-all global capital standards in that, and how do you view and encourage transparency in these international meetings and negotiations?

Secretary LEW. Congressman, I think that if you look at the review of insurance rules, there has been a lot of give and take, a lot of review of views from the industry, from State regulators, and from national voices.

Mr. HUIZENGA. They don't say that now, though.

Secretary LEW. Well, no. There is a lot of back and forth.

I think that—

Mr. HUIZENGA. But you don't deny that IAIS has booted them out of the process?

Secretary LEW. They are still very much taking comments from outside—

Mr. HUIZENGA. Taking comments is very different, though, than being at the table when the discussions are happening.

I guess my question is—and I know this has come up repeatedly when you have appeared here—what is the active role that Treasury is taking when we are going into these negotiations? My suspicion is that this is a longer conversation. And I would love to have a written response from you in a timely fashion on this specifically, because I think this is something I want to dive deeper into in my subcommittee, the Monetary Policy and Trade Subcommittee.

Secretary LEW. I am happy to pursue it outside of the hearing in greater detail. I would just say that—

Mr. HUIZENGA. Then you will give me a written response in a timely fashion?

Secretary LEW. I will answer any questions that I am asked.

Mr. HUIZENGA. I am most concerned about the “timely fashion” part. I know sometimes that can take a while.

Secretary LEW. We will do our best.

I would just say that we do have a history, as you stated, of State regulation of the insurance industry. We also have to have some ability to look at these issues nationally. We have tried to strike a balance where we have been respectful of the State regulatory process and history, but international bodies speak with one voice.

Mr. HUIZENGA. Yes, I understand that. They certainly feel a bit cut out.

As TTIP, as we are discussing in the negotiations, TTIP negotiations continue. It seems to me that the U.S. position on financial services has been to negotiate on market access issues, but refuse to encourage or engage on the regulatory side. I understand the E.U. has put forth a proposal on regulatory issues to U.S. negotiators. Why does Treasury refuse to engage on this topic?

Secretary LEW. We have been very clear with our European counterparts that we think market access is an appropriate issue to be negotiated in a trade negotiation. We do not believe that prudential standards should be subjected to trade negotiating processes or trade remedies.

Mr. HUIZENGA. Isn’t there a way, though, to discuss regulatory proposals that doesn’t undermine the post-crisis ones that have occurred on both sides of the Atlantic?

Secretary LEW. Sure. I think we have in the FSB and the G-20 and the OECD—a lot of international conversations where we looked to try and reach high standards that are as harmonized as possible in a system of national responsibility. What I don’t think is appropriate is to permit our prudential standards, for example, to be challenged in a trade context.

Mr. HUIZENGA. But it doesn’t sound like, going back to my first question, that you are engaging those people who are going to be there trying to make sure and working with our Treasury—

Secretary LEW. Oh, no, I have engaged on an ongoing basis. I just met with Lord Hill in Washington a few weeks ago. I met with him in Brussels a month or so ago. So we engage quite, quite closely.

Mr. HUIZENGA. In my remaining minute here, I want to hit on the IMF. Do you agree with Secretary Kerry that there is no permanency to the United States’ line of credit at the IMF? And that these resources are not in fact permanent, but expire, and that, to quote him, “It has to be repaid at the end of 5 years if it is not renewed?” Those comments of his were made more than 5 years ago.

Secretary LEW. Look, I think that what I believe about the IMF is that we very much need to ratify the IMF reforms so that our commitment to the new arrangement to borrow can be converted into a capital contribution in a strengthened system that has the resources to deal with the next financial crisis when it comes.

Mr. HUIZENGA. So you don't believe that we should be able to close down this line of credit? It is a special line of credit that 5 years ago now-Secretary Kerry had sort of shepherded through and was touting as, "Hey, in 5 years, this is going to be repaid."

Secretary LEW. I think that we have made it clear that we think the IMF reforms are the best way to have a strong IMF and a U.S. role in the IMF that has the leadership role that we need for our national security.

Mr. HUIZENGA. That ticking in the background is a signal to both of us, but I do appreciate your commitment to get back to me in a timely manner with some written responses.

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.

Welcome, Mr. Secretary. Happy St. Patrick's Day.

Secretary LEW. And to you.

Mr. LYNCH. Nice tie.

Let me stay with the topics that Mr. Huizenga has raised. Let's go back to the IMF quota reform issue. As it stands now, does this do anything to the voting weight either of the E.U. in respect to the United States? I know that sometimes these can shift over time, and I am just concerned about whether or not we have, in a governance respect, the same weight and the same influence that we have today.

Secretary LEW. Congressman, the thing about the IMF reforms that is so important is that it preserves the U.S. position and it provides for some reallocation of representation basically between Europe and emerging economies. It was a difficult negotiation. It was critical to us to maintain the U.S. position in the IMF. And the reason it is so important to ratify the agreement is that we are the last country to step forward. We right now are the only country standing in the way of having the IMF reform become the policy of the IMF.

The impatience around the world is becoming extremely high. It is as if the United States has said that we recognize that the emerging countries need to have more of a voice, but now we won't take the step, even though it doesn't hurt the United States. On the contrary, it strengthens our position.

I think it is critically important to our leadership not just in the IMF, but more broadly for us to get this done.

Mr. LYNCH. Okay.

And you feel comfortable that we are not—I could understand if we were reluctant to engage in a deal where our loss was everyone else's gain. I totally understand taking a pro-American position on that. But you are quite sure that we are not giving the store away here?

Secretary LEW. Absolutely. And I have to say, ironically, we are being criticized on both sides by the countries that gain and the countries that lose for standing in the way of the reforms.

Mr. LYNCH. Yes. Okay. Let me go over to the IAIS issue, the International Association of Insurance Supervisors. We are trying to work out some reforms there as well, adopt some standards. I understand the need for this and I understand that the AIG issue

is probably hanging out there on behalf of some of our international neighbors about the need for reform.

But I have a lot of big insurers in my district, and we have a lot of insurers that do a very good job here in the United States. And I am just concerned about whether the integrity of the insurance system is being maintained during those negotiations. I know Mr. Huizenga was concerned about the lack of our people at the table. Just who is at the table? And how vigorous is our representation?

Secretary LEW. Congressman, we are—Treasury is at the table. The bank regulators are at the table. And I think that the real question is: Do we have the right kind of standard for insurance companies? And we have made it clear that we think insurance companies should be held to an insurance company kind of standard.

Just last year, Congress passed a law and it was signed into law that permits our regulators to take account of that as they impose capital requirements on insurance companies. It is now being implemented here domestically. We will control the United States policy through our regulatory agencies. So if we designate an institution in the United States, the Fed will make that decision. And fundamentally, it is the national authority.

Mr. LYNCH. All right. Now, I am down to my last minute. Let me try to drill down on that issue a little bit more. This concern is regarding the IAIS Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), which is they are trying to compel our side to basically adopt this ComFrame. And I haven't read it, I confess, but it seems to have the attention of our insurance industry and I am a little concerned about that.

And secondly, we have GSIIIs now, which are globally systemically important insurers. But obviously, that brings enhanced supervision on our insurers here in the United States vis-a-vis our international neighbors.

Secretary LEW. Ultimately, the only thing that puts enhanced standards on our companies is the regulatory actions taken in the United States. The international process is trying to drive the international standard to a high level. But each national authority retains the responsibility to regulate its own.

And that is—when we make a designation at FSOC, we are the national authority doing the designation. If a firm is designated, the Fed will be the national authority making the—

Mr. LYNCH. I think they are concerned about a follow-on effect. In other words, you adopt something at the international level that requires us to do as you say, change—

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the—

Mr. LYNCH. Thank you, Mr. Chairman.

Chairman HENSARLING. —gentleman from North Carolina, Mr. McHenry, vice chairman of the committee.

Mr. MCHENRY. Mr. Secretary, Federal Reserve Chair Yellen was here 2 weeks ago, and I asked her about the cumulative cost of regulations that the Fed and FSOC are proposing. She continually referred to a 2010 study by the Basel Committee as a reference point.

I pointed out that it is 5 years old, which was long before we fully implemented or got this far in the process of new regulations.

As Chair of the FSOC, has there been a study done on the cumulative costs under—

Secretary LEW. Congressman, I am not sure what constitutes a study, but I think that the regulators are attentive to the cumulative impact of the steps that they are taking.

Mr. MCHENRY. So “attentive,” but is there some point of reference for the cumulative cost of these new regulations?

Secretary LEW. Each one, for example, requires—

Mr. MCHENRY. You can say, “no.” It is okay. I am just trying to get a straightforward answer.

Secretary LEW. I am happy to answer the question. I am trying to answer it.

If you look at each of the steps taken, you can look and see what the capital requirements are and you can add up the burden, as it were. And I think that it has been very clear that there was a goal of internalizing risk in firms which does increase somewhat the costs to firms of their activities.

We think that is appropriate. It is appropriate because it should be the burden of a firm, not the burden of the public, if anything goes wrong. And having things like more capital is part of addressing the risk that caused the financial crisis in the first place.

Mr. MCHENRY. But is there a broader review that you could point to?

Secretary LEW. I would have to go back and check if there is any kind of a comprehensive review. But the costs that are I think most significant for firms are the ones I am describing.

Mr. MCHENRY. Yes. Would you commit to providing the information to the committee?

Secretary LEW. I am happy to go back and look at what we have.

Mr. MCHENRY. Thank you.

So, back in June you testified before this committee that it was premature, in your words, to evaluate the effects of government regulation on market-making activities—the Volcker Rule, basically—which has in some regards caused liquidity to vanish in certain marketplaces.

Is that still your view, that it is still too premature?

Secretary LEW. I think as a practical matter, the Volcker Rule is not in effect. So, one is asking what have firms done in anticipation, not in compliance or because of requirement. I do think that there has been some movement by firms to get ready for the Volcker rule. I think that is a good thing because they have had fair notice and there was some extension of the deadline to make sure they could prepare in an orderly way.

And if we are saying to financial institutions that they should exit the proprietary business, to do it in an instant is not the right way to do it.

So I think it is premature to evaluate what its full impact is, but I think it is a good thing that the industry is preparing for it.

Mr. MCHENRY. We had pretty significant volatility on October 15th of last year in some government bonds. Did you follow that?

Secretary LEW. I followed it, yes.

Mr. MCHENRY. Do you think that is at all connected to diminished liquidity provided by institutions that have gotten out of prop trading in anticipation of Volcker?

Secretary LEW. Congressman, what was going on, on October 15th, was a complicated set of things. There was a lot of news going on, so that there was generally an off-risk kind of mood in the market that day. I think that there are many who jumped to a conclusion, prematurely, that it could all be set at the—at regulatory practices.

I don't think that—there is no evidence I have seen that suggests that that was the predominant factors. We are looking at—

Mr. MCHENRY. Was it a factor, though?

Secretary LEW. Look, there were many things going on. And—

Mr. MCHENRY. You have said there were many things going on. But do you think the Volcker requirements, that firms in anticipation of Volcker have gotten out of this place, that some of the shock absorbers aren't there in the system?

That is a reasonable question, isn't it?

Secretary LEW. I think the evolution of the market is being driven by a lot of factors at the same time. So I am reluctant to attribute causality to any one thing.

You have different players in the market—a different mix of where the velocity is coming from—many of whom are not covered by Volcker.

So I think that this is something that requires a lot of analysis. We are doing it, and I would be happy to share with you a more complete analysis when we complete it.

Mr. MCHENRY. In that regard, I think FSOC is creating more problems by diminishing the liquidity in the marketplace, which will create future problems, potentially, in the marketplace. Is that a concern to you as Chairman of the FSOC?

Secretary LEW. We are always—we are concerned about making sure that we maintain the most liquid markets in the world. I do think that it is a mistake to attribute to regulatory policy what happened on October 15th. And I would be happy to follow up with you.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. SHERMAN. Just one comment for the record, our materials for this hearing talk about preserving our veto at the IMF. We don't have a veto at the IMF. I have talked to the number two over there, and asked if we could prevent loans to or economic aid to Iran. He made it very clear that was not the case.

I remember when a prior Administration urged us to put more money in the World Bank because we had a veto there, and Iran got over a billion dollars of loans from the World Bank over our objections.

So, we can devote more resources to the IMF, but we still don't get a veto over decisions to assist individual countries.

I want to focus on currency manipulation. The Administration wants trust on an even fast track on the Trans-Pacific Partnership (TPP). But they told us they are not going to include currency manipulation in that. They have bought into, because of this idea that

if somebody in the world says that we are manipulating our currency because we have interest rate policies, that, therefore, we better not talk about the deliberate and true and actual manipulation of other countries.

Every time I raise this question, the answer I get is as to why we are not sanctioning China for its currency manipulation is, "China is cheating less." And I haven't been married as long as many of the members of this committee, but I have been advised by at least a few not to use the line, "But, honey, I am cheating less."

[laughter]

The law is clear. If China is manipulating its currency, you are supposed to designate them. Other than the fact that would make them really mad, and they are cheating less, why haven't you carried out existing law and designated China a currency manipulator?

Secretary LEW. Congressman, we have engaged directly with China in an aggressive way on this question of currency policy, and we have made enormous progress. And I think if you look at—

Mr. SHERMAN. You are getting them to cheat less, but you are not following the law.

Secretary LEW. Congressman, I think if you look at what the goal of the currency report is, we have put a bright light on practices that need to change. We have been aggressive in international bodies and in bilateral negotiations to push hard to get change. And with China, we have, in the last year, gotten some substantial recognition of that. Both in terms of not intervening in the way—

Mr. SHERMAN. Mr. Secretary, you are not following the law, but you have persuaded them to cheat less.

Secretary LEW. But, Congressman, if I would say, the consequence comes from the designation you are describing is an intensive consultation process. We are doing that.

Mr. SHERMAN. What about the consequence to our constitutional system when the Executive Branch takes the attitude that Congress doesn't know what it is doing, so we are not going to follow the law?

Secretary LEW. I would say the damage that TARP has done to our social contract, the damage that an attitude of, we shouldn't follow the law because it will have bad consequences, does to the Nation's social contract is very significant.

I would just say if you look at the record—

Mr. SHERMAN. Mr. Secretary, I have to go on to the next point. The last time you were here, and the time before that, I asked you to take a look at worldwide unitary, so that we could finally tax international corporations in a fair manner. You asked me to talk to your assistant Secretary for tax policy, and you told me that you personally would look into it.

He said that he couldn't be bothered to look at it; he was too busy. So I am going to stop asking you about it. But if we were serious about taxing multinational corporations, we would be looking at it seriously.

We are told that some of the giant banks are too-big-to-jail. We have had large financial institutions abroad conspire with U.S. taxpayers to deliberately, intentionally—not avoid taxes, it isn't a

loophole, but just cheat on taxes, to the tune of millions of dollars. But all of these people are really rich taxpayers. Are they too-big-to-jail? Too-well-connected-to-jail?

You have been given the records of thousands of those who have conspired deliberately in a premeditated manner to cheat on their U.S. taxes. Is anybody going to jail?

Secretary LEW. So, Congressman, on law—on prosecutory matters, we don't—

Mr. SHERMAN. Has the Treasury Department put together a criminal case? Have you called the attorney general and said that we have to give a high priority to prosecuting, because if we don't, our "voluntary" tax system doesn't work?

Secretary LEW. I think we have been clear that our policy is that no one is beyond the law.

Mr. SHERMAN. Except—yes, but no one is in jail.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from New Jersey, Mr. Garrett, chairman of our Capital Markets Subcommittee.

Mr. GARRETT. Thank you. I think I will follow along the issue of whether the Administration follows the law.

Mr. Secretary, you have been in government for much of your professional career. You spent the first 2 years of the Obama Administration, 2009 to November 2010, as the Deputy Secretary of State for Management and Resources. And, according to their Web site, that position serves as the Chief Operating Officer for the Department. The Deputy Secretary serves as the principal advisor to the Secretary on overall supervision and direction of resource allocation and the management activities of the Department.

So, you were the Department's Chief Operating Officer during that period of time under Secretary Clinton, responsible for advising Secretary Clinton on resource allocation. While you were at the State Department, were you also responsible for enforcing the Department's policies regarding the use of personal email accounts and record retention?

And, if not, who was responsible?

Secretary LEW. Congressman, I was at State during that period, and I was responsible for a vast array of responsibilities, both in terms of managing the Department and our international—

Mr. GARRETT. Were you responsible for the enforcement of the policy regarding emails?

Secretary LEW. I don't recall having had a lot of conversations—any conversations that I remember on—

Mr. GARRETT. So, who was responsible?

Secretary LEW. I would defer to the State Department. They are looking at this. And they would be happy to respond.

Mr. GARRETT. You were a Chief Operating Officer, so operation of the equipment and all the rest and the policy—that was not your responsibility?

Secretary LEW. Clearly, the functions that did the administrative work at the State Department reported up the line. I am telling you I didn't spend a great deal of my time on that. I was responsible—

Mr. GARRETT. Whether or not you spent much time on it, were you responsible?

Secretary LEW. I take responsibility for the operations that reported to me at the State Department.

Mr. GARRETT. Were personal email accounts part of your responsibility?

Secretary LEW. Personal email accounts are not part of the State Department.

Mr. GARRETT. Were you responsible for the enforcement of the policy regarding personal email accounts?

You don't recall? Is that what you are saying?

Secretary LEW. Congressman, I don't recall being involved in policy making—

Mr. GARRETT. Did you discuss with the Secretary whether any Federal law, regulation, or Department policies prohibited her from using private or non-government accounts?

Secretary LEW. I have no recollection of any discussion.

Mr. GARRETT. Did you ever approve, then, her request to use personal email accounts?

Secretary LEW. Not to my recollection.

Mr. GARRETT. Okay. Were you aware that the Secretary was using personal email accounts to conduct State Department business?

Secretary LEW. Congressman, the State Department is going through all of this material—

Mr. GARRETT. I know. But I have you right here, so I am asking you the question.

Secretary LEW. Look, I am—

Mr. GARRETT. Were you aware that she was using it at the time?

Secretary LEW. I was aware that she was emailing with people. I didn't pay a lot of attention to what email she was using.

Mr. GARRETT. Really? I just emailed my staff a moment ago on another matter, and as soon as I emailed them—even though it is an old BlackBerry which has terrible service and I am not very happy with it—it has their name and their account right on top of it.

I assume you were in contact with the Secretary on a regular basis?

Secretary LEW. I actually met—my normal communications with her were in person or on the phone.

Mr. GARRETT. That was your normal way. But were you also in contact with her on email?

Secretary LEW. Occasionally.

Mr. GARRETT. Occasionally. And so, you are saying during that course of 2 years you never noticed whether or not—where her account was coming from?

Secretary LEW. Congressman, I am telling you that at the time I was mostly paying attention to the substance of what I was communicating.

Mr. GARRETT. I do, too, but I often notice exactly where the email accounts are going to, because I know what the rules are about whether I should be doing something over a personal or private account.

Are you telling me that you never made inquiry when you were emailing with people in the Department of State as to where you were emailing them?

Is that what you just said?

Secretary LEW. Congressman, I think in—

Mr. GARRETT. Could you answer that question? When you emailed somebody on official business, did you ever make notice of who you were emailing to and what account you were emailing to, or did you, as you just indicated—you said you did not pay attention to where you were emailing?

Secretary LEW. No. When I put somebody's name in my BlackBerry, as you do with yours, an email address pops up and—

Mr. GARRETT. Right. And did you ever notice where you were emailing or did you disregard that policy?

Secretary LEW. I just don't recall, Congressman.

Mr. GARRETT. No, I am not asking you whether you recall it. Do you now, as Secretary of the Treasury, notice where you are emailing to?

Secretary LEW. Our policy at Treasury is clear.

Mr. GARRETT. I understand your policy. What do you actually do? Do you make notice of where you are emailing to, or do you disregard that?

Secretary LEW. I certainly—I am always looking to make sure it is the right person—

Mr. GARRETT. Excellent. Were you doing that when you were under the—

Secretary LEW. Yes.

Mr. GARRETT. —capacity there? You just said you do it now. Did you do it back then?

Secretary LEW. I think we all know that you put a name in, and sometimes you get a name that isn't the name that you intended—

Mr. GARRETT. Sometimes, right?

Secretary LEW. —and we want to make sure—

Mr. GARRETT. A moment ago, you said you always checked. Did you check when you were emailing to Secretary Clinton?

Secretary LEW. When somebody's name pops up, it doesn't automatically pop up—

Mr. GARRETT. A moment ago, you said you always checked. Did you check back then, or you do not recall?

Secretary LEW. I don't know how your email system works, but often the name pops up and not the full email address.

Mr. GARRETT. I understand. So you are telling me that when you email people now as Treasury Secretary and also—

Secretary LEW. I make sure it is the right person.

Mr. GARRETT. You did not ever check to see where it was going to? As long as the name was up there, that was satisfactory for you? You did not make the inquiry as to where you were emailing? Is that what you are telling me?

Secretary LEW. In my address book, I have people's official address, and that is where I email to.

Mr. GARRETT. And when someone—so you never make the further check?

Thank you.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you.

Welcome, Secretary Lew.

Let me first start out with asking you, when we were dealing with the Wall Street reform and TARP, we in this committee put forward what we refer to as the Hardest Hit program, which was to help struggling homeowners stay in their homes.

And it amounted to roughly about \$4.5 billion. My State of Georgia's share was \$39 million.

But as a part of the agreement in the legislation that we passed, we put a sunset date that said whatever balance the State does not use by the end of 2016 returns to the Treasury Department.

So my question is, how are we doing? Do you have a system in place in the Treasury Department where you are gauging these statements?

The need is tremendously great, as you know, and continues to be. We now have only, according to the legislation, about 21 months before the end of 2016 when the balance of the money not used comes back to you.

Do you have a report on how these States are progressing? From our indication, certainly in a hard-hit State like Georgia, none of the money should be coming back; much of it goes to help struggling homeowners to be able to pay for their mortgage for up to 24 months. It is desperately needed, especially for our veterans, many of whom are facing mortgage problems.

How are we doing on that, and do you have any system in place to gauge how these States are doing it to make sure that they are leaving that money in their States to help the American people?

Secretary LEW. Congressman, we do very much want each of the States to use their hardest-hit fund allocations for the purpose for which it was designed.

We have tried to be flexible in working with States to make sure that the funds can be used not just for some of the more obvious purposes but for things like, in Michigan, the destruction of housing that is a blight on the community.

I would have to go back and check on what the State-by-State numbers are—

Mr. SCOTT. Let me ask you to do that. My time is short.

Secretary LEW. But we are working on it to make sure the money gets—

Mr. SCOTT. Yes. If you could—I am sure other members on the committee would like to know how their States are doing, but I am particularly concerned—

Secretary LEW. I would be happy to get back to you.

Mr. SCOTT. —about what balance is left in the State of Georgia, that \$39 million, so we might be able to light an additional fire under it to make sure that money stays in Georgia.

Now, let me ask you about ISIL, if I may. What steps has the Treasury Department taken to engage with our allies abroad in disrupting ISIL' terrorist funding?

And particularly, to what extent are countries across Europe and in the Middle East coming together behind a common strategy to disrupt ISIL financing?

Secretary LEW. Congressman, we have worked very closely with our allies in Europe and in the region to do everything we can to stop the flow of funds to support ISIL.

I think—

Mr. SCOTT. Specifically, could you give us an idea?

Secretary LEW. There are different countries that have different degrees of visibility into where money is flowing, so we have had, on a bilateral basis, conversations with many countries to make sure they put their resources to bear, to look at questionable entities and individuals.

I have had many conversations at a very senior level with governments in the region to get the commitment to put those resources into it.

I think the reality of ISIL funding is that it is not principally coming from money flowing from outside of the country in. The way ISIL has been funded in part has been to conquer territory and to take the bank vaults and to take the money in the bank vaults. It has been to pressure people in the area to make payments to support ISIL.

Mr. SCOTT. Have we been able to increase our participation with Turkey, for example, in terms of the oil?

Secretary LEW. Yes. We have worked closely with Turkey, brought a lot of pressure to bear for Turkey to be attentive to and effective in controlling the flow of oil.

Frankly, our military actions have done quite a lot to disrupt some of that oil flow. Turkey has pledged to be cooperative, but it is a very long border, and there are very informal means of moving contraband across the border.

So it is a difficult challenge, but we are very much engaged with them to try and stop it.

Mr. SCOTT. Thank you, Mr. Secretary.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Neugebauer, chairman of our Financial Institutions Subcommittee.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for being here.

Secretary Lew, you serve as Chairman of the Financial Stability Oversight Council, and FSOC is charged with assessing risk and monitoring threats to the financial stability.

In 2010, the Dodd-Frank Act designated that institutions above \$50 billion in total assets would be considered systemically important, such that their collapse would pose a risk to the financial stability.

Unfortunately, during that period of time there wasn't any analysis of the factors of what is a systemically important institution, and so arbitrarily, that number was set at \$50 billion.

Today, there is quite honestly bipartisan and even bicameral support growing to increase this number, since during that time, they really didn't take the time to analyze whether it should be \$50 billion or \$75 billion or \$25 billion; they just set that arbitrary number.

As you know, Section 115 authorizes FSOC to recommend to the Federal Reserve that the \$50 billion threshold for SIFI designation be raised.

Unfortunately, I can't find any evidence where FSOC is actually taking any efforts to analyze the appropriate level for SIFI designation.

So I guess the question I have today is, has FSOC completed a review under Section 115 to raise assets thresholds for application of enhanced prudential standards, yes or no?

Secretary LEW. Congressman, FSOC and the members of FSOC, the regulators on FSOC, have been very attentive to the difference between small, medium, and large financial institutions.

Mr. NEUGEBAUER. But that wasn't the question. Whether they were being attentive or not, have they taken a detailed analysis under Section 115 to determine whether that additional threshold could be raised?

Secretary LEW. I think the question of formal versus discussions is really the issue. There have been a lot of discussions about—

Mr. NEUGEBAUER. But I am talking about formal. So is the answer to formal, "no?"

Secretary LEW. I am not aware of a formal review, but there has been a lot—when I say attention, what I mean is that in the development of regulations, there is a lot of flexibility of what the standards should be for institutions of different size. Nobody has confused a \$50 billion with a multi-trillion-dollar institution.

Mr. NEUGEBAUER. If they didn't—they weren't able to ascertain that when the legislation was put in place. They gave you a vehicle.

And I guess what I am hearing you saying is, maybe there has been discussion about that, but nothing has been done formally to address whether that threshold is too low. Is that correct?

Secretary LEW. Yes, I am not aware of a formal review, Congressman.

Mr. NEUGEBAUER. Now, are you aware that last month, the Office of Financial Research (OFR) released a report examining systemic indicators. And they used a framework, I think, of five factors that—categories that were created under the Basel Committee.

And interestingly enough, the results demonstrated huge variation between systemic importance between the largest banks and the regional regional banks. Are you familiar with that report?

Secretary LEW. Yes.

Mr. NEUGEBAUER. And were you surprised at the results of that?

Secretary LEW. Congressman, I think that I would have to look at the details of the report to comment on it in detail.

Mr. NEUGEBAUER. But did you find any flaws in that analysis? Did you think that was a fair analysis of the factors and that the results were—it is your report.

Secretary LEW. No, OFR does independent work. I don't review their reports before they put them out.

I would be happy to look at it and give you a thoughtful comment on it. I am not surprised they are looking at the issue, no.

Mr. NEUGEBAUER. But I guess the question is, is since you have the authority under Section 115 to do that, and there has been a lot of discussion about that, and even bipartisan support, bicameral support to do that, I am just kind of surprised why FSOC hasn't taken on the features of 115 to do that.

Secretary LEW. Congressman, what we have—what I have focused on in the 2 years that I have been Chair of FSOC is to make sure that we implement the provisions of Dodd-Frank.

At each step of the way, I have encouraged regulators to take note of the difference in what they do for small, medium, and large financial institutions. I believe they have done that on an ongoing basis. They are continuing to do so. And to the extent that they have flexibility, it is appropriate to use it.

I am not ruling out the use of Section 115. I just think it is a question of first getting through the process of implementing the full Dodd-Frank Act, which is what we have been trying to do.

Mr. NEUGEBAUER. But would you then—if you have seen the OFR report and have seen the wide range there, would you agree that probably that process needs to take place, that the \$50 billion threshold is maybe not the right number?

Secretary LEW. I don't think there is any question that a \$50 billion institution has different characteristics than a money center bank.

And I don't think that the only solution is to move the limit; it is to look at, what are you doing to make sure that you are appropriately looking at institutions of different sizes—

Mr. NEUGEBAUER. That is all the more reason to do the Section 115 analysis—

Secretary LEW. I am happy to go back and take a look at it, but we have been very much focused on making sure that the burdens on medium-sized institutions are appropriate to those institutions.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mrs. MALONEY. Thank you.

And welcome, Secretary Lew. I would like to ask you to help me understand this chart. This chart is a chart that shows the economy. It begins in 2008, when President Obama was elected. And the deep red shows that the economy was hemorrhaging. We were losing 800,000 jobs a month.

The blue tracks the job growth under President Obama and the picture begins to improve. We see 5 straight years of job growth, 12 million private sector jobs over the past 60 months.

And what factors do you think were most important in achieving this dramatic turnaround, where we have grown 12 million private sector jobs in the past 60 months and a positive job growth for our country?

Of course, it is never good enough until every American has a job. But it certainly is a vast improvement.

To what do you attribute this dramatic turnaround?

Secretary LEW. Congresswoman Maloney, it is a little far, but I recognize that chart, even from this distance.

Mrs. MALONEY. I am sure you have seen this chart many times.

Secretary LEW. The economy was in freefall when the President took office. That is what the red at the left-hand side of the chart shows. I have to start by saying the grit and determination of the American people are the reason that we have the ability to bounce back. But it is also because our government responded quickly and

aggressively to deal with the causes of the problem and to get the economy moving again.

So if you look around the world, where was the response to the financial crisis and the economic crisis?

Most direct, it was the United States. We did financial reform to fix the problem. We went into the business of jump-starting the economy with the Recovery Act, which I think made a huge difference and then with payroll tax cuts that gave additional boosts to the economy when it needed it.

And our Fed led the world in thinking through how to use monetary policy creatively in a world of very low interest rates.

I think if you look at what we did; we used all three levers—reform, fiscal policy, and monetary policy—effectively. A lot of the world was slow to use the tools and then didn't use them all as effectively as they might.

I think that one of the things our experience should teach the world is that you need to use policy and you need to use it at the right time to get the best recovery.

Mrs. MALONEY. Thank you.

This committee has been somewhat critical of your role on FSOC and charging that it is apparently not transparent enough or accountable enough to Congress. But it seems to me that FSOC has been very accountable to Members of Congress and to stakeholders. And I will give one example from my own experience.

Last year I sent you a letter suggesting four improvements to the process for designating companies as systemically important. And last month the FSOC adopted all four of those reforms as part of a package of improvements to the designation process.

So it seems to me, from my experience, that FSOC is willing to engage constructively with Congress, respond to our concerns and our questions, and try to find common ground.

In this case, you actually approved the suggestions that I put forward.

Can you describe the process that FSOC went through to identify the reforms that were adopted last month?

And do you think these reforms strike the right balance between providing companies with a fair, thorough, and transparent process and preserving the FSOC's ability to identify, monitor, and mitigate systemic risk?

By the way, thank you for the FSOC decision on my concerns.

Secretary LEW. Congresswoman, we thank you and other members of the committee for offering advice, because FSOC is a young organization. It is roughly 5 years old. I think we have very solid rules that we have used from the very beginning but, as with any organization, we should remain open to what can we do to improve in the future.

The suggestions that you made were one of a number of sources of input. We did open the process so that there was consultation, both with Congress and with outside parties.

And I think that what the changes demonstrate is that we very much want to have a process where parties know where they stand, and where the flow of information back and forth is as efficient and effective as possible.

I would just note that before the rule change, there was a great deal of communication already back and forth with parties. It is not that we went from a world where there wasn't communication to a world where there is communication. But I think the rules changes are a good clarification going forward.

Mrs. MALONEY. Lastly, I would like to ask you about Germany, France, and Italy's decision, which was announced last night, to join the Asian infrastructure investment bank. This follows Britain's decision—

Secretary LEW. Mr. Chairman, if I might just take a minute to respond?

Chairman HENSARLING. A very brief moment.

Secretary LEW. Congresswoman, the issue about the Asia infrastructure investment bank is an important one. There are obviously vast needs in Asia and many parts of the world for infrastructure investment.

Our concern has always been not is there going to be an investment institution, but will it adhere to the kinds of high standards that the international financial institutions have developed?

Will it protect the rights of workers, protect the environment, and deal with corruption issues appropriately?

Our point all along has been that anyone joining needs to ask those questions at the outset. And I hope before the final commitments are made, anyone who lends their name to this organization will make sure that the governance is appropriate.

Chairman HENSARLING. The time of the gentlelady has expired.

Mrs. MALONEY. Thank you.

Chairman HENSARLING. The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, chairman of our Housing and Insurance Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. Mr. Lew, I notice you have your green tie on this morning. My wife is half-Irish, so I mandatorily have to wear this one today.

Secretary LEW. I spent 8 years in the office of Speaker O'Neill, so I was trained early.

[laughter]

Mr. LUETKEMEYER. Thank you, sir.

We have touched a little bit on some of the issues this morning that I want to talk about. I am the chairman of the Housing and Insurance Subcommittee so the insurance stuff is what I want to talk about this morning, especially with regards to international capital standards and how they would be implemented here in the United States.

I had a meeting this morning with a group of insurance folks and they are very concerned, and I am very thankful that you said insurance—if I get this right—should be held to insurance company standards here in this country.

So I assume from that comment that you want to regulate even companies that would not necessarily be big enough to fall under the international standards, continue to regulate them under the insurance standards that we have today.

Is that correct?

Secretary LEW. Congressman, the only companies that I am referring to are the relatively few companies that we have designated

under the FSOC process that then go on for Federal oversight by the Fed. States are doing the regulation of firms on a day-to-day basis.

Mr. LUETKEMEYER. So basically what you are saying is you don't want to regulate at the Federal level then the rest of the insurance companies with international capital standards that you are putting on use for the big guys then, is that what you are going to do?

Secretary LEW. The standards that I am describing are the ones that apply to the firms that are subject to Fed oversight—which as you know are—

Mr. LUETKEMEYER. GSIFIs or SIFIs, right.

Secretary LEW. GSIFIs, yes.

Mr. LUETKEMEYER. So you are going to regulate them differently, then, with regard to capital standards?

Secretary LEW. I think that, as I have heard from State regulators and from firms, the State regulatory process in general does apply insurance standards to insurance companies. So I think the concern was that in making a Federal designation, would the Fed have the flexibility to apply an insurance standard rather than a bank standard to those designated firms?

And I think with the passage of the Collins Amendment, it is now clear that the Fed has that authority. So they will do so.

The capital standards will reflect appropriate standards, which are being developed now, so I can't tell you specifically what those standards will be. Obviously, there is a difference between what is a pure insurance product and what are other forms of financial activity.

Mr. LUETKEMEYER. So I guess the question is, it your intent to subject domestic insurers that are not regulated at the Federal level to international capital standards? What would your answer be, yes or no?

Secretary LEW. The process of insurance regulation in general is done at the State level.

Mr. LUETKEMEYER. Okay. So therefore you would not be willing—you are not going to do that?

Secretary LEW. I think State regulators, like Federal regulators, aspire to best practices. So if there are best practices, that is what I would hope the States would use.

Mr. LUETKEMEYER. Okay. Quick question with regards to the SIFI designation, GSIFI situation.

I was in the banking business for 35 years and I, for the life of me, cannot understand how you could have an insurance company that is systematically important. I realize you think they are important. But how can they bring our entire economy down?

Since you are Chair of the FSOC, Mr. Secretary, what is the criteria that you used to determine those three insurance companies are systemically important enough to the point where you would bring the entire economy down?

Secretary LEW. Congressman, as you know, in the case of each of the designations, there are hundreds of pages of analysis that support—

Mr. LUETKEMEYER. I guess my question is, do you have some criteria?

Secretary LEW. The question is, are there transmission channels where the failure of one of those firms could lead to broader financial problems?

And in the cases of each designation, after a detailed review, we reached the conclusion the designation was appropriate because that was the case.

Mr. LUETKEMEYER. Okay. If you have designated them—and we haven't really listed the criteria; you are just looking at the whole thing as a whole—is there a way to de-designate them?

Secretary LEW. I am not saying we didn't list the criteria. We have detailed analysis. It is just—it is hard to answer in 30 seconds.

Mr. LUETKEMEYER. But you don't have a set of criteria? You just sort of analyze it and just sort of say, it looks like it may.

Do you have a set of criteria that you actually go down and check a box or list?

Secretary LEW. I would be happy to send you the public documents that we have put out to go through in detailed analysis why those transmission channels were determined to present the risk.

And in the second part of your question, the core activities of these businesses were subject to designation. It is the scope of their activities and—

Mr. LUETKEMEYER. Okay. I have one more question, really quickly. And my time has almost expired here.

This morning in one of the political papers here in town, there was a headline that said that the Secret Service wants \$8 million to build a fake White House to train agents.

Now, Mr. Secretary, please tell me we are not going to spend \$8 million to build a fake White House to train when we have movie sets, we have all sorts of military bases around the world, and we can build virtual reality sorts of video games that can do all this. Please tell me we are not going to spend \$8 million to build a fake White House?

Secretary LEW. Congressman, I can't comment on what the proper training and practices of the Secret Service are.

Mr. LUETKEMEYER. Let me put it this way: Are you going to raise their budget by \$8 million to do something like this?

Secretary LEW. I don't have responsibility for the Secret Service. It was moved from the Department of the Treasury to the Department of Homeland Security. So—

Mr. LUETKEMEYER. Okay.

Secretary LEW. —it is just not in my—

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Massachusetts, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman.

How are you doing, Mr. Secretary? Happy St. Patrick's Day.

Secretary LEW. And to you.

Mr. CAPUANO. Mr. Secretary, I have one issue I want to pick a bone with you on, but before we do, I want to clear up a few very important things.

Did you read Secretary Clinton's regular mail?

Secretary LEW. No.

Mr. CAPUANO. Did you check it before it came in, see who was writing her and what was in there?

Secretary LEW. Only if she needed me to look at something.

Mr. CAPUANO. So, after the fact?

Did you tuck her in at night?

Secretary LEW. I certainly did not.

Mr. CAPUANO. Did you make sure she brushed her teeth?

Secretary LEW. Do you really want me to answer these questions?

Mr. CAPUANO. If we are going to ask ridiculous questions, I just think we may as well go to the logical extreme of absurdity.

Let me ask you about a different issue. We will get off that one. I think I kind of made the point.

Secretary LEW. You made your point.

Mr. CAPUANO. Have 47 Members of Congress of either branch, because I wouldn't want to knock one branch over the other—ever written to the FSB to say, "Don't talk to you?"

Secretary LEW. I am not aware of it, but—

Mr. CAPUANO. Have 47 Members of Congress ever written to the International Association of Insurance Supervisors and said, "Don't talk to the Secretary of the Treasury?"

Secretary LEW. I am not aware of it.

Mr. CAPUANO. Have they ever written to ISIL and said, "We can't believe the Secretary of the Treasury is trying to do something to contain you?"

Secretary LEW. Not to my knowledge.

Mr. CAPUANO. Not to mine either. But if they do, would you let us know? Because I would like to know that Congress thinks you shouldn't be doing your job by talking to people on an international basis.

But I do want to talk to you about one issue, and that is Fannie and Freddie. I know we have had this discussion briefly before, and I hope that you expected it to come up today.

Since Fannie and Freddie went into receivership, the Federal Government—they borrowed \$87.5 billion from the taxpayers. Very important, very difficult, very risky.

But since that time, they have paid back \$225.5 billion. That is about a \$40 billion profit, give or take a 20 percent rate of return.

Could you tell me what you have done with the \$40 billion that you have gotten back, beyond what the taxpayers lent?

Secretary LEW. Congressman, as you know, it becomes part of Federal receipts—

Mr. CAPUANO. The general fund?

Secretary LEW. —and the general fund. But—

Mr. CAPUANO. So that goes in the general fund, and we, Congress, and you, the Administration, in the normal course, can spend it any way we want?

Secretary LEW. As a practical matter, it is part of what has helped us reduce our overall—

Mr. CAPUANO. I understand. More receipts is fine. I think the other side has problems with more receipts, not me. But I get that.

But basically, it has come into the general fund for all intents and purposes, and we have spent it on whatever we wanted, which

is fine. That is not the issue. I am not chasing that. That is a different debate.

But that \$40 billion is only the beginning.

What have Fannie and Freddie been allowed to pay down on the \$187 billion that they originally borrowed?

Secretary LEW. Congressman, I think that the idea that they are kind of out of the woods is—

Mr. CAPUANO. I didn't say that. I am asking—

Secretary LEW. They are still—

Mr. CAPUANO. I am asking what is happening with the money.

Secretary LEW. There is still a Federal guarantee behind Fannie and Freddie.

Mr. CAPUANO. I understand that, which I actually like and appreciate. Some of my colleagues don't, but I do.

Secretary LEW. And exposure for taxpayers until there is housing finance reform and we move to—

Mr. CAPUANO. Fair enough. How much has Fannie and Freddie—what kind of capital reserves have Fannie and Freddie been able to build up?

Secretary LEW. They have not built up a capital reserve.

Mr. CAPUANO. Because we are sweeping all the money out and putting it into the general fund and spending—

Secretary LEW. But until we move to a system beyond the current one, taxpayers are ultimately responsible, and they are—

Mr. CAPUANO. But that has been the case since day one. That has been the case since the 1930s. Taxpayers were on the hook at every time.

And they had a blip, and the taxpayers stepped in, as we promised we would do for 80 years, and now we have been paid back.

The question is, when are we going to stop using this as a piggy bank?

Secretary LEW. I don't think it is a—

Mr. CAPUANO. I don't think we have to have a debate about reforming Fannie and Freddie. But alright, if that is the case, what is the Administration's proposal on how to move forward?

Secretary LEW. Look, I think that the important question is, how do you move forward on housing finance reform? We have very much wanted to move forward. We think it is an important priority.

I think that—

Mr. CAPUANO. Have you submitted a proposal that I haven't seen?

Secretary LEW. We were closely in the development of proposals, particularly on the Senate side, and have been engaged in trying to think through with others how to—

Mr. CAPUANO. But those aren't moving forward, as we clearly both know.

Secretary LEW. I don't disagree that progress has been slow—

Mr. CAPUANO. If that is the case, how long are you going to keep holding Fannie and Freddie hostage?

Because the reason I ask, it is not about Fannie and Freddie; it is about homeowners.

By holding them hostage: first, you are not allowing Fannie and Freddie to capitalize; second, you are not allowing any funds to be

left over from the Housing Trust Fund; and third, you are basically submitting homeowners to an additional tax for the purposes of general revenue, which doesn't sound fair to me. General revenue should be paid for by the general people.

Secretary LEW. I don't agree with that analysis in terms of the impact on homeowners. I do think that there is a very serious question that as long as Fannie and Freddie are in conservatorship, there is a public exposure.

Mr. CAPUANO. But there is conservatorship because you won't let them out. You won't let them pay off their debt.

Secretary LEW. There is, I think, the need for housing finance reform in order to move beyond the current state.

Mr. CAPUANO. If one of my constituents were to loan me money and not allow me to pay them back, what would you call that?

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Wisconsin, Mr. Duffy, chairman of our Oversight and Investigations Subcommittee.

Mr. DUFFY. Thank you, Mr. Chairman. Good to see you, Mr. Lew.

Just to follow up on Mr. Capuano's questions, the International Association of Insurance Advisors is not seeking nuclear weapons, are they?

And in regard to making sure that Hillary Clinton brushes her teeth, you are not the Tooth Fairy, correct?

But in regard to emails, you were the Under Secretary of State for Management, right?

Secretary LEW. I was Deputy Secretary of State. The Under Secretary of State for Management was another position.

Mr. DUFFY. Maybe we can put up an organizational chart of the Department of State. You actually reported directly to Hillary Clinton, is that correct?

Secretary LEW. Correct.

Mr. DUFFY. And it is fair to say that there are many modes of communication, but one of them with the Secretary was via email, right?

Secretary LEW. Correct.

Mr. DUFFY. And it is your testimony today that you never noticed that she wasn't sending email or you were corresponding with her via a .gov account—

Secretary LEW. Congressman—

Mr. DUFFY. —that you never realized that it was a Clinton email account?

Secretary LEW. Congressman, I can answer the same question again.

Mr. DUFFY. I would like that.

Secretary LEW. Yes, my general mode of communication with the Secretary was meetings and phone calls. I did email with her from time to time, and I don't remember exactly how it showed up—

Mr. DUFFY. I want to be very patient.

But I would ask—President Obama has indicated this is going to be one of the most open and transparent governments we have ever seen, and as one of its Representatives, I would ask you to actually respond to the question, which is, did you ever notice that you were corresponding with Secretary Clinton on an account that was not a .gov account?

Secretary LEW. Congressman, I always—

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

Secretary LEW. I always made sure I was corresponding with the right person.

Mr. DUFFY. That is not my—listen, listen. You are very good at this, not answering questions, and I appreciate the way you tap dance, but I think everyone in the room understands my question, and you are just not answering it.

Did you know that you were corresponding with Secretary Clinton on an account that was not a .gov account? Yes or no?

Secretary LEW. Congressman, I don't remember giving it a lot of thought—

Mr. DUFFY. That is not my—whether or not you gave it a lot of thought is not my question. My question is, did you know you were corresponding with her on an email that was—

Secretary LEW. It was a long time ago.

Mr. DUFFY. So you are saying that you don't remember. Is that your testimony?

Secretary LEW. I am just telling you—

Mr. DUFFY. Is it your testimony that you don't remember?

Secretary LEW. I am just telling you that I—when I emailed with people—when I email people, I always make sure—

Mr. DUFFY. Is it fair to say you don't want to answer my question, Mr. Secretary? Because you know the question I am asking, and you are refusing to answer it.

So I guess what I am assuming is, you knew you were corresponding with her on an account that was a nonofficial account. And I understand you don't want to lie to Congress, and I appreciate that, and you don't want to be part of a news story. I appreciate that. So you don't want to answer my question.

But I think all of us here understand that you are saying, "I knew it that it was a nonofficial account. I just don't want to tell you here." Is that right?

Secretary LEW. Look, Congressman, I have always endeavored to do my business in an open way—

Mr. DUFFY. Let me ask you, do you use for official business your official account, or have you ever used a nonofficial account for official business?

Secretary LEW. I use my official email for official business except—and I follow all the—

Mr. DUFFY. Have you ever used a non-government account for official business?

Secretary LEW. The only time I ever would use my personal account is if, for some reason I couldn't use my—

Mr. DUFFY. Have you ever used a non-government account for official government business?

Secretary LEW. On occasion, consistent with common practice, if I can't use official email, I have. But it is not at all a regular occurrence.

Mr. DUFFY. I think this is an important issue. Let me give you a quote, and see if you can tell me who gave this one.

"Any unauthorized disclosure of classified information is a violation of our law and compromises our national security and our national defense requires that sensitive information be maintained in

confidence to protect our citizens, our democratic institutions, and our homeland. Protecting information critical to our national security is the responsibility of each individual who is granted access to classified information.”

Do you know who gave that quote?

Secretary LEW. I do not know who gave that quote, but you are going to tell me.

Mr. DUFFY. I am going to tell you that it was you. You gave that quote. That was yours.

And I would hope that we have laws in place that apply to everyone in government, not just a few in government.

Secretary LEW. To be clear, classified information can't be communicated over normal official email either; it has to be on a classified system.

Mr. DUFFY. Do you believe that the Hillary Clinton email, clintonemail.com, is as secure as the .gov email system?

Secretary LEW. There are others who are more expert looking at that. I—

Mr. DUFFY. But in your opinion, it is possible?

Secretary LEW. I am not going to comment on something I don't really have the knowledge to comment on.

Mr. DUFFY. Being an operations guy, the COO, on the exit form that every State Department employee is to sign, were you pretty certain that everyone who exited the State Department would sign that appropriate documentation?

Secretary LEW. I would assume it would be normal practice.

Mr. DUFFY. Okay. I yield back.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from New York, Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

Mr. Secretary, I was at another hearing, and I walk in here, and I am confused.

What is your title again? You are the Secretary of what?

Secretary LEW. Treasury.

Mr. MEEKS. Treasury. Treasury.

And you came here to talk about the Treasury and the economy, is that not correct?

Secretary LEW. This is a hearing on international financial institutions, Congressman.

Mr. MEEKS. And that is significant to the people of the United States, right?

Secretary LEW. I think it is very important.

Mr. MEEKS. And by the way, maybe because our economy has recovered—has it recovered substantially since 2008?

Secretary LEW. It has recovered substantially. We are on the right path. We still have more work to do, but we are—the rest of the world is now looking to us as an example of how you bring yourself back.

Mr. MEEKS. And the unemployment rate must be very high or—

Secretary LEW. As you know, it is in the mid 5s.

Mr. MEEKS. Oh. So maybe other folks don't have anything to talk about in regards to the economy and what your job really is, so maybe they are trying to talk about something else since they have

nothing of substance that affects the economy of our country to discuss with you, Mr. Secretary of the Treasury.

Secretary LEW. I am happy to discuss the economy for as long as you would like.

[laughter]

Mr. MEEKS. Let's get to what I think that you are here for, and you are here to talk about it, because I think being the Secretary of the Treasury, and it affects the American people how we are going and where we are—I think that is substantial. And for me, I want to just ask some questions which I think would be relevant. I know that the ranking member was very involved and concerned about it, and I think a few other members. And that is about anti-money-laundering issues.

A number of banks have faced heavy fines levied by the Financial Crimes Enforcement Network (FinCEN) recently.

And Mr. Secretary, what should we make of the larger number of banks being deemed in noncompliance with our anti-money-laundering regulations?

Secretary LEW. Congressman, the anti-money-laundering rules are very important. It is the way we make sure that illicit activity is caught and stopped. I think that we have been aggressive and effective in making the law well-understood and in underscoring the importance of having compliance programs.

I think that what we have seen in recent years is a kind of risk aversion developing where financial institutions have been, if anything, going beyond what may be required. They are not required to stop doing business, say, in a country where there are problems. They are required to have the kind of compliance program where they can catch problems and prevent having problematic transactions.

So I think that there are two halves to this: one is the part that we control; and one is the part that financial institutions control.

And we have worked hard to communicate both with financial institutions and internationally with our counterparts abroad to make sure that systems are in place where we can both have very tight standards on stopping illicit money activities but also have a system where financial transactions can continue.

Mr. MEEKS. So do you think that the banks are putting enough effort and resources into this?

Secretary LEW. Look, I think they are putting resources into it. I think that they need to look at what the proper compliance program is so that they can remain engaged in important areas of commerce without opening the door to prohibited activities.

Mr. MEEKS. So to—generally, you used the phrase, you need to know your customer.

Do you think the banks should also know their customers' customers?

Secretary LEW. They are responsible for where the money is coming from and going to. Banks know what are suspicious transactions that should raise attention. And we work closely to make sure it is clear what is required of them.

Mr. MEEKS. Let me, in the little time I have left, because I just came back from Asia and I was looking at the President's proposals for TPP and some of his trade agenda and there are things that

are popping up and I know you have had some questions already about currency manipulation and whether there should be a currency chapter in TPP. And I didn't hear your answer but—

Secretary LEW. I didn't get much of a chance to answer.

Mr. MEEKS. Go ahead, please.

Secretary LEW. Yes. We are very much of the view that unfair currency practices have to be stopped. We engaged in the multilateral processes at the G-7, the G-20, at the IMF. We engage intensely on a bilateral basis to try and bring behavior up to a level that meets what is the broad international standard of market determined exchange rates and only using domestic tools for domestic purposes, not to gain unfair advantage.

My view on whether it belongs in a trade agreement is separate from how aggressive we are in pushing back on practices that we think are unacceptable.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. ROYCE. Thank you. Thank you, Mr. Chairman. Secretary Lew, good to see you again.

Secretary LEW. Good to see you.

Mr. ROYCE. We are just back from a trip to India, China, and Taiwan. And I just thought that I would give you a quick read there in terms of some of these issues that you are working on. We had a good meeting with Prime Minister Modi and the momentum there is headed in the right direction.

Last Thursday, the Indian parliament approved a new bill that raises the ownership caps for foreign insurers, for example, to 49 percent, while also allowing foreign reinsurers to open branches in India.

Now, that is long overdue. It is definitely good news.

In China, the news is a little more ambiguous, and it was clear from our visit to Shanghai that American businesses continue to expand in China, just as China—you can read the headlines here—has that appetite for investment and real estate and even tech companies like Lyft and Snapchat. That continues to rise.

But U.S. firms continue to compete on an unlevel playing field in China with very serious limits on ownership there, and the regulatory pressures are significant. China recently introduced this bank technology, rules and draft counterterrorism law. I know they say it is on hold, but they say it is scheduled in due time.

So I need to ask you about that. It is definitely a move in the wrong direction. It would force U.S. firms to use domestic Chinese technology vendors, as you know. It would limit cross-border data flows. It would expropriate intellectual property as a result of this law. And you would have a lot less access for U.S. firms.

One of the other troubling aspects of it is it would require our technology firms, especially financial services, to hand over encryption keys, the passcodes that help protect data, and would install those security backdoors in their systems to give Chinese authority surveillance access.

This is a new challenge. I want to ask you about that. And I also want to ask you about the progress on the bilateral investment treaty in China. You have 18 rounds of negotiations that have

taken place and, of course, my focus is on what could be done in terms of this arbitration issue, which I think would give us a real chance to make sure that we have a mechanism outside of the court system there to resolve differences, if we can push hard enough on that.

So if you could tell me about that and maybe ownership caps and the agreement, I will turn the time over to you here.

Secretary LEW. Thank you, Congressman. I was also in India recently and met with the finance ministry and with the prime minister and was encouraged at the direction that they are moving in, both in terms of opening up markets but also in terms of making clear for American businesses how tax issues will be resolved and other things that have been a real obstacle. There is a long way to go. But—

Mr. ROYCE. But how about the arbitration issue in China? Again—

Secretary LEW. So on China, you raised the issue of the technology requirements. As I think you know, we have made very it clear that we think that this is a very problematic set of proposals that they put forward. I, together with the Secretary of State and the U.S. Trade Representative, wrote to the Chinese leadership to make clear that we thought they needed to stop that from taking effect.

I have engaged personally with my counterpart on it. I think they are very, very troubling. This is not the first issue to come up. The anti-monopoly law last year was a similarly troubling issue.

What I can say is that we are engaging on it and if they want to maintain the kind of progress that we are making in the U.S.-China relationship they have to hear the concerns we are raising. That can only be done by bringing the issues to bear and to do it through channels where there is the ability to communicate effectively back and forth.

On the BIT, they are in a matter of days, I think, certainly a matter of weeks, supposed to be providing the first major documentation, which will be their so-called negative list, the businesses that—

Mr. ROYCE. Yes, I am familiar with that. But I would just like to get back to arbitration.

Secretary LEW. Yes.

Mr. ROYCE. You need to strenuously push this concept because if these things get decided in the courts in China that is not a fair way to do it. If you can have third-party arbitration, you can have these commercial settlements handled effectively.

Is that going to be part of the agreement?

Secretary LEW. Congressman, I have to check on the arbitration issue. But I will—

Mr. ROYCE. —certain it is in there—

Secretary LEW. —yes, I will say that, in general, the engagement on the BIT is a question of, can China rise to standards that are high enough that they meet our requirements so that we can enter into a BIT?

Hopefully, it is an attractive enough proposition that they will rise to that standard. If not, there won't be a BIT.

Chairman HENSARLING. The time of the gentleman has expired.

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

Mr. GREEN. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for this appearance today. Mr. Secretary, let's talk for just a moment about Dodd-Frank. I believe it to be an exceedingly important piece of legislation.

Would you kindly give some indications as to how well it is performing and some indication as to how Dodd-Frank could have made a difference when we went through the 2008 crisis?

As you know, AIG was styled an insurance company.

Could you please elaborate to some degree?

Secretary LEW. Congressman, I think that we have made an enormous amount of progress at making our financial system and the global financial system safer and therefore the economy safer. We have taken action that raises the capital held by banks and financial institutions that are significant so that they are able to absorb the risk that they are taking on.

We have put in place consumer protections that didn't exist before to prevent the kind of practices that kind of metastasized in the pre-financial crisis days through the subprime lending problem.

I think if you look at the kind of back end, when institutions hit a difficult time, we have put in place resolution practices through both procedures like the orderly liquidation authority (OLA) and resources like the orderly liquidation fund (OLF) to make sure that insurers like the FDIC can manage without having to turn to taxpayers for the kind of support that was required in 2008–2009.

I think internationally, we have worked to try and bring global standards up to where U.S. standards now are. I know that this committee asks a lot of questions about the FSB. What the FSB fundamentally is, is a way for us to drive the conversation internationally so that it won't just be the United States that has high standards, but there will be high global standards, which is so important.

I think we still have a lot more work to do. I think that the idea that you ever finish is probably not attainable because the financial system doesn't stop moving. It doesn't stop evolving. The next problem won't be exactly what it was in 2007 and 2008. That is why we ask questions about things like money market funds and asset managers and other things, not because we assume that there is a problem, but because we know that if there is something that presents a kind of risk that should get our attention, we need to ask the questions in advance.

The fact that there is an FSOC, the fact that there is a council that brings together all of the relevant regulators and authorities to ask the question, what do we need to be thinking about to make sure that we protect financial stability, it didn't exist before. We now have that. We put out an annual report that lists in detail what we think the concerns are. And I think that the system is enormously more safe than it was before.

Mr. GREEN. The Consumer Financial Protection Bureau, one piece of the puzzle, would you just give some indication as to how important it is?

Secretary LEW. Congressman, I think if you look at the work they have done, and you look at the clarity with which mortgage documents are now prepared, so that an individual middle-class person, a working person who is taking out a mortgage can actually understand the transaction they are entering into—enormously important.

The fact that you can't do things like low-doc, no-doc loans; fees that are hidden; costs that explode in a way that you didn't understand when you were signing on to a loan product. I think that they have done enormously powerful work in that and many other areas. And I think notwithstanding the critique in some of the halls here, if you go to the communities both of consumers and institutions that they deal with, there is a lot of respect for the quality of work that they have done.

Mr. GREEN. How important are living wills for SIFIs?

Secretary LEW. Living wills are very important. Living wills for the largest institutions actually give you the ability to know that if they were to hit the crisis point, do they have the ability to work out their problems on their own. It is why the review of living wills is such a serious piece of business. And it is hard. These are complicated organizations. And the fact that it is taking some time to get them hammered out shouldn't be particularly surprising. Having them in place will make the system much safer.

Mr. GREEN. And you have indicated that all legislation, and you have not said this directly, but legislation can be improved upon. Are you amenable to working with Congress to make improvements?

Secretary LEW. Congressman, I have always been open to working with Congress to make the kinds of legislative changes that would improve financial oversight, improve the soundness of our system. What I haven't been open to is questions about whether the basic approach should be reevaluated or reversed.

Mr. GREEN. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Oklahoma, Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman.

And Mr. Secretary, we have discussed a wide variety of topics today.

Secretary LEW. We always do.

Mr. LUCAS. Which is a good use of time, and insights are always gained.

I would like to focus back for a moment on issues that I think impact the economic viability of my district and much of the country. Rarely do I quote researchers at Harvard, but recently a report came out, a study looking at the effect of Dodd-Frank and recent changes in the community banks' "market share" since the implementation of Dodd-Frank, and even looking back before that since 2008.

It was a little bit alarming in that it noted that the community bankers market share, which had been declining since 2008, had actually accelerated, some might even use the phrase "doubled" in the time since it was enacted.

Now, of course, Dodd-Frank was designed to protect all of us from the too-big institutions that many of us would agree in this room almost brought the economy to its knees in 2008. But with the implementation of Dodd-Frank, it seems that the small institutions, call them community banks—\$1 million, \$10 million, \$1 billion, \$10 billion, \$50 billion—whatever—the smaller institutions seem to be squeezed the most by what is going on and have the greatest barriers to try to continue their business or to enter the marketplace.

So I guess my question to you, Mr. Secretary, is, and save me a little bit of time for one more question, based on what we are seeing happening in the community banking segment of the financial markets, is it time for regulators to use some of the flexibility given to them in Dodd-Frank? Or perhaps if that is not possible, is it time legislatively for Congress to respond and try to provide some relief to the community banks, the people who didn't cause the problems that Dodd-Frank was the answer to? Or as we would say in Oklahoma, is it time to save the people we saved?

Secretary LEW. Congressman, I think if you look at Dodd-Frank and the implementation of Dodd-Frank, there has been a great deal of attention paid to treating community banks differently, and appropriately so, from the larger, money-center banks. I think as you have noted in your question, the trend of consolidation preceded the passage of Dodd-Frank, and I haven't read the Harvard study you are describing, but I would be happy to look at it and give you a response after I have looked at it.

Mr. LUCAS. Please do. It describes an accelerating—

Secretary LEW. You have to look at what was happening to that trend and whether it would have accelerated anyway because it was accelerating before.

If you look at consolidations, it is not just at the smaller level. It has happened in the large institutions as well, not for necessarily good reasons. You had a lot of troubled institutions that had to be taken over. So, I think that the challenge we have is to always be mindful of the fact that you can't treat a Main Street bank, a \$5 billion bank, the same as a regional bank or the same as a money-center bank. We have tried not to. We are always attentive to how we can do better and we have a lot of flexibility and the regulators have a lot of flexibility.

Mr. LUCAS. But the net effect, Mr. Secretary, appears to be an accelerating deterioration in the community banks' market share, a reflection of what they are trying to cope with and deal with. That ultimately has an effect on the consumers with less access to credit, higher cost for credit, and fewer general choices. At some point, either this body or you have to respond to save the people we saved.

Secretary LEW. I do think that there is a difference between the consolidation of community banks and whether or not there is a loss of access. Because that consolidation process has been happening, and they remain community banks.

But I am happy to follow up on this question with you, Congressman.

Mr. LUCAS. One last question, and since we are talking about the state of the international financial system, it is on another topic

that is simmering along in this body, which is one of our institutions that works with businesses in this country as they enter into international interactions. Please give us an insight or two on the relevance of the Export-Import Bank as it comes to U.S. participation in the financial markets.

Secretary LEW. Look, I think the Export-Import Bank plays a hugely important role. Right now, we have a global system where all of our competitors have export financing support. The idea that the United States would kind of unilaterally disarm in a world where other competitors have export financing programs would put U.S. manufacturers, U.S. exporters at a great disadvantage.

I think there is a kind of a notion that it is only large firms that benefit from the Export-Import Bank. That is wrong. Just the other day, I was in Baltimore, at a small business in Baltimore that said the most important tool it has to access foreign markets is the Export-Import Bank.

Now, I think you can go through the districts represented on this committee and you would find countless examples of small businesses that are benefiting from the Export-Import Bank. I hope we can work together on a bipartisan basis to renew the Export-Import Bank before the end of June when it expires because American businesses deserve our support.

If there were an international agreement to lower all export subsidies, that would be a different story. We are working with the international bodies that this Congress helped create, but we are not there yet. And unilateral disarmament would be wrong.

Mr. LUCAS. Thank you, Mr. Secretary.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Missouri, Mr. Cleaver, ranking member of our Housing and Insurance Subcommittee.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here today.

I have had the opportunity to go to Cuba twice over the last 3 years and it is my hope that nothing that we do here will sabotage this possible bridge from the United States to Cuba.

Americans can go to North Korea. We can go to Russia. We can go to Venezuela. We can't go to Cuba. And the sad part about this, at least as far as I am concerned, is that we are missing out on trade. I think The Netherlands and Canada are the chief trading partners with Cuba. I have one company in my district, Cargill, that does business in Cuba, but other businesses are struggling with trying to find out what is going on with the normalization process so that they can try to do business in Cuba.

But there are some problems. One, I guess the Ex-Im Bank is not presently guaranteeing loans to do business in Cuba. So, therefore, a lot of companies are going to be hesitant to do business with a country that is considered to be unstable without Ex-Im participating. Is that an accurate assessment on my part?

Secretary LEW. Congressman, the action that the Administration took obviously was to try within the law, within the authorities we have, to remove restrictions that we thought were counterproductive, and if anything, working against the goal of getting kind of change in Cuba that we all want, which is movement to-

wards giving human rights and other issues of importance greater attention.

I think that the transactions between U.S. and Cuban parties will be governed by law so that there will be things like food sales. One of the things that changes is that payment terms will be easier for companies to comply with and for the purchasers to comply with.

So I think that there will be some benefit to U.S. firms doing business in Cuba. But we haven't opened up all of the normal forms of support that exist in countries that we have normal relations with. And, we have been clear that Cuba still has a long way to go to make the changes that it has to make before we have that kind of conversation.

Mr. CLEAVER. I agree that it is—we are not there yet. In 1993, Cuba actually made the U.S. dollar legal tender. And then in my first year in the House in 2004, Cuba placed a 20-percent surcharge on remittances, dollars coming into Cuba, which created—I hate this term, I don't know how to use it for a human being—the term they use is “mules” carrying U.S. dollars into Cuba illegally, and giving it out to their relatives, which I completely understand. But with this going on, is there any—I don't want to know about the negotiations. I am not going to ask you about negotiations in a public hearing. But it would be my hope that there is something being done in terms of remittances, as we move toward normalization. Is that something that you are—

Secretary LEW. In the steps that we took, among other things, there was some easing of travel restrictions and remittances, so that would be easier for families. But just as importantly, telecommunications has opened up, because exposure of Cubans to the West, to the United States, our values is part of what we think will bring real lasting change in Cuba.

Mr. CLEAVER. You can send remittances through Western Union. But the concern is what I think is a pretty heavy surcharge on the U.S. dollar.

My time is running out. Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from New Mexico, Mr. Pearce.

Mr. PEARCE. Thank you, Mr. Secretary.

Secretary LEW. It is hard in this room to know where to look.

Mr. PEARCE. Okay, just further to your right than you think.

[laughter]

Mr. MULVANEY. But not all the way.

[laughter]

Mr. PEARCE. But not all the way.

The IMF broke its longstanding rules, according to The Wall Street Journal and just an inspection of the loans or bailouts, however you want to say it, to Greece. Would you be willing to commit today to reinstating those previous principles that were bypassed in the deal with Greece?

Secretary LEW. Congressman, I am not. I don't think I would agree with that characterization. I think the IMF did have an exceptional access program with Greece.

Mr. PEARCE. Okay.

Secretary LEW. But that is something that—

Mr. PEARCE. You will have to fight that out with people who say that you did.

Secretary LEW. Yes. I think that—

Mr. PEARCE. What about the—

Secretary LEW. —if you look at what was going on at the time, if the IMF had not stepped in, the risks—

Mr. PEARCE. Okay.

Secretary LEW. —to the European and the global economy was quite severe.

Mr. PEARCE. Yes, and it still is, frankly. So what is your stance on the oil export ban? Do you have a stance?

Secretary LEW. I'm sorry—

Mr. PEARCE. The oil export ban for the United States?

Secretary LEW. It is actually a matter that is not directly in my area.

Mr. PEARCE. So, you don't have an opinion?

Secretary LEW. I try to comment on the things that I am responsible for.

Mr. PEARCE. Mr. Secretary, we just heard my friend from New York say that you are the Secretary, the Secretary of the Treasury. The Secretary of the Treasury who has come here to talk about our economy and to talk about the world economy. And it would be nice if you had an opinion, but—

Secretary LEW. I think—

Mr. PEARCE. —sorry, with all respect, sir. I just have an observation. I am reading your written statement and it is replete with considerable progress in the rainbow stew that is characterized in the report of the world economy and our economy in general.

When I Googled this morning, I saw that manufacturing was down in February. Another article came up, which said that manufacturing in New York is down in March.

Another article said wholesale prices have been in decline for 4 months.

So, as the Secretary of the Treasury, here to tell us about the economy, it would be nice if you told us some of those dark clouds instead of the sunny horizon that has been painted here. I find the lack of transparency in the report that you have issued to be stunning.

In fact, one point—you said, in answer to a question by one of our friends on the other side of the aisle, that we should teach the world about good policy.

Now, we did teach the world about good policy, because when we started printing money, the quantitative easing after 2008, policies that improve your economy and a philosophy called beggar thy neighbor, the world economy has learned that really well. In fact, that is what is driving our value of our currency up today. And so just today, I was Googling and I saw that companies across America are being devastated by the race to the bottom that we taught the rest of the world about economic principles. And with them printing money, and there our value of our dollar is increasing dramatically, the losses that are being passed on to American companies are being felt right now.

That would be a critical piece for you to be relaying to us, but I didn't hear anything about that. And so, Mr. Secretary of the Treasury, that would have been a nice thing to put in here.

I am just making observations here at the end of the day because we have people pointing out that there is nothing to talk about in the economic situation. But in the whole deal, much of the report goes into the IMF, and our responsibilities to the IMF. Nothing in your report says that the whole game depends on the Europeans, primarily Germany, continuing to bail out Greece.

The finance minister for Greece just recently made a comment that we ought to tear up the whole agreement. That now that is causing yes, on the 13th of March, it would have been nice if your report said that on the 13th of March, the German population switched pretty dramatically to where they don't favor Greece getting any more bailouts. In fact, they want Greece out of the E.U., which then sets up the prospect that other nations who are financing the sovereign debt for Europe would be extremely cautious about loaning to Italy, to Spain, to Portugal, and to those other nations.

Those would have been nice things to have heard in this report about the economy, Mr. Secretary, Mr. Secretary of the world economy that we heard you are here to testify about. But I didn't hear anything about that.

I yield back, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from Colorado, Mr. Perlmutter.

Mr. PERLMUTTER. Thank you, Mr. Chairman.

And to my friend from New Mexico, I am going to give the Secretary a chance to talk about that economy.

And so I am going to start with—and hopefully it is a little closer so you can see it sir—a slide from the Federal Reserve economic data chart, and what this is, is civilian unemployment since 1970, and I have circled the last few years, in terms of job losses in 2008, coupled with job gains since then.

Would you care to comment on that?

And I also have—this is for the United States as a whole, I have another slide, Mr. Secretary, that is for Colorado, where we suffered the same as the United States generally, where our unemployment went sky high in 2008–2009, and started coming down under the Obama Administration, it is now down to about 3.5 or 4 percent. So, Mr. Secretary, would you like to comment on job growth?

Secretary LEW. Thank you, Congressman.

And I do appreciate the chance to comment, because undoubtedly, there are economic statistics that go up and down, month to month. There are a variety of them. There is no denying the trend of the U.S. economy over this last year has been very strong growth for several years. It has been strong employment growth.

Do you compare the United States to Europe or to other parts of the world for growing better, and we are creating more jobs than most of the developed world put together.

Secretary LEW. Now, I think if you asked the question of why, I believe it is because, as I said earlier, we have a flexible and resilient people, and we responded with policy that worked.

And I realize that policy has not always been something about which there has been unanimous opinion.

I don't think the results are subject to question. We are in a better place now.

Mr. PERLMUTTER. Let me give you another slide. And this is Dow Jones since 2005, and it shows a steady increase up to 18,000 from a low point of about 6,000 in 2008, early 2009. Do you want to comment on that?

Secretary LEW. Obviously, there has been a recovery in our financial markets where the losses from the "Great Recession" have been reversed, and if you look at the trend, the picture you just showed, people had their retirement savings restored. Investors got back what they lost.

We have seen in housing that property values are starting to come back up. There are still areas where it is not fully there. Where we have seen a problem is that income growth has been slow to come back. But in the last year, we have seen about 2 percent growth in wages. That is good, but we would like to see more.

We are starting to see some pressure on wage growth, which is a good thing. For those of us who came of age in the 1970s and 1980s, rooting for inflation does not feel like a natural thing. But too low inflation is not a good thing. Everyone is now shooting to get to 2 percent. And 2 percent is hard to achieve.

Mr. PERLMUTTER. All right. Let me give you one more slide, and this one is on 30-year conventional mortgages, which have seen a continual decline to the benefit of homeowners who are in a position to take advantage of them, down to about 3 percent, or about 3.5 percent.

Secretary LEW. There is no doubt that the affordability of mortgage finance has stayed very much within reach in terms of historical standards.

The challenge, as we were discussing a bit earlier, is that the process of qualifying for a mortgage has been too challenging for some.

I think—

Mr. PERLMUTTER. Let me change the subject.

Secretary LEW. The good news is that it is still a market where mortgage financing is very affordable.

Mr. PERLMUTTER. Let me just change it to someplace where I think there are some headwinds, and I would ask you as the Secretary of the Treasury to watch, and that is in a tremendous drop in oil and gas prices which—I come from Colorado, so we are an energy-producing State. We have seen some layoffs.

Now, I think our economy is strong enough to move forward through those layoffs. But there is within the energy sector, a lot of concern. And there are a number of ways to deal with it. I would ask that your Department be mindful of this, whether or not we may want to put some kind of a tariff and be protectionist for our local industry, I don't know.

But I will let you respond.

Secretary LEW. Without a doubt, if you look across the whole U.S. economy, lower energy prices have actually been a shot in the arm. It has been like a tax cut for most consumers and most businesses, because everybody consumes, and relatively few produce.

Equally undeniable is that there are pockets of the country where there has been a slowdown in economic activity as new rig activity has been slower.

Mr. PERLMUTTER. Mr. Chairman, I ask unanimous consent for the charts that I have to be entered into the record.

Chairman HENSARLING. Without objection, it is so ordered.

And the time of the gentleman has expired.

Mr. PERLMUTTER. Thank you.

Chairman HENSARLING. The Chair now recognizes the gentleman from Ohio, Mr. Stivers.

Mr. STIVERS. Thank you, Mr. Chairman.

Mr. Secretary, I am over here. By the way, I appreciate you recognizing the benefits of tax cuts just now.

I want to talk to you a little bit about the economy and then community talks and then, if we have time, insurance standards and maybe what is going at the DOL. But my local foundation, the Columbus Foundation, just put out a report that said 145,000 people in central Ohio, in my area, have been left out of this economic recovery because they have given up looking for work. They don't have the skills they need. There is a real skill gap.

If you extrapolate that across the country, that means there are 11 million people suffering today, every day, even though the stated unemployment rate has gone down—the U-6 still says 11, so that is still a pretty big number.

So I hope you are spending time focusing on those people who today are left out. And I am not going to ask for comment on that, but I am just going to tell you, I hope and pray that you are focused on that, because these are great American people who are left out of our recovery, and I hope you will spend a little time thinking about them.

I do want to follow up on a question that Mr. Lucas brought up, or questions, about the plight of community banks. I had a recent conversation with a lady named Linda. She is shopping for a house. And her local community bank stopped offering mortgages because they felt like the regulatory compliance was too heavy for them. They are a small community bank.

I wanted to kind of talk to you about your role at FSOC. You have been there a little over 2 years as Chair of the FSOC, I am curious, how much time do you spend in each FSOC meeting talking about the plight of community banks and this idea of trickle-down regulation and how you can make sure that consumers like Linda can get access to products at their local community banks?

My district is half rural. There are no big banks in major swathes of my district, it is community banks. And so, if they are not offering residential mortgages, the people can't get them.

So how much time do you devote at every FSOC meeting to the plight of community banks? In round numbers?

Secretary LEW. Congressman, I am not sure I could give you a round number.

Mr. STIVERS. Is it on the agenda, yes or no, of every meeting?

Secretary LEW. I can tell you that every time we have discussed the housing finance system, every time we have discussed rules, whether it is at FSOC or in informal conversations that we have,

there is a very strong focus on what is the impact on community banks—

Mr. STIVERS. Is it—

Secretary LEW. And how do we distinguish between—

Mr. STIVERS. Sure. Is it a stand-alone agenda item on every FSOC meeting, because if it is not, I would just urge you to make it a stand-alone impact item of the unintended consequences on our community banks. Take that for what it is worth, and if you can do it, people like Linda across this country would benefit from it.

I do want to switch to international insurance stuff. I am from Columbus, Ohio, and the Ohio State football team is the national championship football team. I want to use a football analogy for you. Has Team USA, on the international insurance standards, sort of taken a pause, taken a time out to make sure we understand the impact on our domestic carriers of these international rules before we move forward and charge ahead, of importing European standards for American companies?

Secretary LEW. Congressman, I don't think that there is any plan to just import standards from Europe. Our representatives participate in those to try to make sure that there are high standards around the world. But ultimately, the U.S. authorities will make the U.S. rules; national authorities will make national rules for the United States.

Mr. STIVERS. Thank you, that is great.

So, have you conducted, as part of Team USA in these international insurance standards, an analysis of the potential impacts of the IAIS standards on domestic insurance industries in terms of financial, legal, and accounting regimes that these U.S. companies now confront?

Secretary LEW. There is ongoing work on this. And I know that our insurance office pays a great deal of attention to what the impact of any rules changes would be.

Mr. STIVERS. Do you do it in terms of what it means to policyholders and customers? Do you take it down to that level?

Secretary LEW. I think the analysis is broad. I would be happy to get back to you.

Mr. STIVERS. Please do. And, again, getting back to people like Linda whom I talked to, there are a lot of policyholders and a lot of consumers who want to buy insurance products. Any standards you make will affect their ability and their cost of those products.

So I would urge you to really take a look at that.

I only have 16 seconds left. Have you coordinated or your Department coordinated at Treasury with the Department of Labor on this standard, new fiduciary standard that DOL is proposing? Have they kept your labor folks in the loop and your policy—

Secretary LEW. We have been aware, as it has gone through the process.

Mr. STIVERS. Would you call it coordination, or is it just informing you?

Secretary LEW. There has been interagency discussion on the policy, but it is a Department of Labor rule.

Mr. STIVERS. Thank you.

I yield back, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Minnesota, Mr. Ellison.

Mr. ELLISON. Allow me to thank the chairman and the ranking member.

And, Secretary Lew, thanks for your great service to our country.

I have been talking about Somali remittances for quite a long time, as you know. But, as you also know, we have reached a frustrating point. Back on February 6th, the bank that was doing most of the facilitation of international transfers stepped out of the work. And now, we are pretty much at the end of the line.

What can your office do to try to facilitate these remittances?

Secretary LEW. Congressman, you and I have discussed this a number of times. I know the deep concern you have, and we are very sensitive to the problems that you are trying to address.

I believe you had a discussion recently with our acting Under Secretary and discussed the issue at some length. I think that the challenge is, and I don't think there is any disagreement on this, we all want to stop the flow of money to bad actors.

Mr. ELLISON. Of course.

Secretary LEW. No disagreement on that.

I think we also all agree that people who are just trying to send money to their family members who are not bad actors, it is heart-breaking that they can't do so easily.

Mr. ELLISON. Forgive me, Mr. Secretary, but I must say it is heartbreaking and I agree, but it is also I think a national security problem for the United States. And here is why: Because if the narrative of Al Shabaab is the United States is your enemy. Look, they won't even let your cousin send you some money for school fees or for food. Don't worry about it. We will give you the money. All you have to do is be our soldier.

That is another factor that I think we absolutely cannot ignore. It is a humanitarian crisis, but we are also playing into the narrative of a terrorist organization. And I need—and I would like it if you guys would start thinking of it in both of those ways. Not just the humanitarian way.

Secretary LEW. The challenge is while we strive to be clear and we will work with you to be as clear as we can as to what the requirements are, what the rules are, we do not tell banks or financial institutions they cannot participate in this.

Mr. ELLISON. Mr. Secretary—

Secretary LEW. But we also can't give a hold harmless to a firm at the same time.

Mr. ELLISON. Here is the thing—

Secretary LEW. So it is challenging.

Mr. ELLISON. But, see, we have a situation where we need some creativity, and that is what I am asking you for.

Secretary LEW. We will continue to work with you and try to be as creative as we can.

Mr. ELLISON. Let me ask you this, there was a bill that—there was legislation that was passed that created a safe harbor, but was opposed by Treasury. In light of the difficulty, would you guys at least go back and look over potential legislation that could allow these transactions to go forward and would prevent the money from going to terrorist organizations?

Secretary LEW. We will look at whatever proposals are forthcoming, including looking again at things that we have looked at in the past. And we will work with you to be as creative as possible.

Earlier in the hearing, we were talking about financial institutions that are trying to avoid any risk by not—by saying they are not going to do activity at all, as opposed to doing it in a way that complies.

I think we have a challenge of making clear what the rules are, but that doesn't mean that it is saying no activity at all.

Financial institutions are responsible for knowing what they are doing—

Mr. ELLISON. But you know what, Mr. Secretary? With all due respect to what you are saying, if you listen to the banks, they would say that they want to do the transactions, but the level of regulatory burden is just so high. You are saying you are not stopping them, but they are saying it is more of a wink and a nod that you are stopping them.

And you are in communication with these banks too. And so it always—I find it a little bit frustrating when I hear our Federal agencies say, oh, we are not stopping them from doing transactions. But the banks say, you are not saying we can't do them, but you are creating an environment where we can't do them.

Secretary LEW. The cases are not all the same. And I certainly don't mean to compare Mexico and Somalia. But we have made progress with Mexico, working with the Mexican government—

Mr. ELLISON. Okay.

Secretary LEW. —and the financial institutions where they are raising their level of scrutiny so that they are able to avoid having the shutdown in correspondent relationships they were worried about.

I think Somalia is a much more challenging environment, obviously. We will work with you on this issue.

Mr. ELLISON. I only have 35 seconds, so let me ask this: I think one solution is to stand up a Somali banking system that meets international requirements to stop money laundering. We are sending them money for the AMISOM troops to fight Al Shabaab. What about sending them some financial help to set up a system where they can have a system that is trustworthy on international standards?

Secretary LEW. I am happy to look at that.

Mr. ELLISON. Well, 7 seconds to go. I am sure there is something I could be able to say. But thank you, Mr. Treasury Secretary. We will be in touch.

Mr. STIVERS [presiding]. Does the gentleman yield back?

Mr. ELLISON. Yes.

Mr. STIVERS The gentleman yields back.

The Chair recognizes the gentleman from Tennessee, Mr. Fincher.

Mr. FINCHER. Thank you, Mr. Chairman.

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

The committee is very concerned that the U.S. is flaring many new mandates and going well beyond the international standards,

whether on capital and the GSIP surcharge, liquidity rules, and many other areas.

We are seeing effects of uncoordinated mandates on our financial markets and, in turn, in the real economy. The story is unfolding right before our eyes, starting with the so-called October 15th liquidity issues.

To cite a few examples, a Bloomberg article dissected the issue—a senior executive at the world’s largest asset manager, BlackRock, stated that the totality of the regulations have had a dramatic impact on the financing market.

Another senior executive at global institution RBC noted that the liquidity is nonexistent in volatile markets, stating, “We took that test October 15th and failed.”

The Wall Street Journal followed with a piece entitled, “The Treasury Markets Liquidity is Drying Up.”

In it, it rather bluntly notes that, “Bond trading desks have reduced inventories in response to regulations like Basel 3 and the Volcker Rule.”

Recently, a senior British regulator at the FCA noted that, “There is enough evidence that low liquidity relative to previous years does not warrant careful regulatory monitoring of market developments and careful consideration of what could be done.

And Bloomberg recently had another article entitled, “The Treasury Market’s Legendary Liquidity Has Been Drying Up.” It highlights impacts on “the U.S. cost to borrow” and implications for “governments, businesses, and individuals when they borrow,” rather directly. It cites, “unintended consequences of new financial regulations which had made bond dealers less willing to hold inventory and facilitate trades,” and pinpoints Basel 3 and the Volcker rule.

Lastly, the non-partisan and independent Center for Financial Stability recently released a report on the dire situation entitled, “Liquidity Shortage: Houston, We Have a Problem.” It outlines historic drops in bank risk-taking and mark making as fresh as “the phenomenon stars financial markets from needed liquidity and is detrimental to future growth by exposing the economy to potentially unnecessary shocks.”

The reduction shows no sign of abating with a series of successive drops.

Mr. Secretary, with this mounting evidence of all of these experts, when is time to get worried?

And what data-driven reexamination is FSOC and/or the U.S. regulators doing on combined effects of regulations? Data-driven?

Secretary LEW. Congressman, I think the question of liquidity is an important one, obviously. The liquidity of our markets has been a source of great strength.

I think that a lot of the instant analysis on October 15th was not data-driven. And I think as we come to understand more about what happened on October 15th, we realize that it was a confluence of factors, and I would look forward to a point where we could discuss that at some length.

I think that what was going on was a combination of reaction to news of the day and off-risk decision-making. And we are obviously looking at whether there were questions of liquidity. But I don’t

think that jumping to an assumption that it was a result of regulation will bear out to be the—

Mr. FINCHER. With all due respect, Mr. Secretary, and you are very knowledgeable when it comes to these issues, but these are experts who are dealing with this every day, who know their business very well, and they are seeing these things actually happen. And so, what we are saying is show us; where are we?

Secretary LEW. I think—

Mr. FINCHER. Are we going to continue to just add more and more and more without having something concrete actually working or hurting?

Secretary LEW. I think if you—it—on the broad question of is it working, if you look at the result of financial reform, we have made our system safer and more resilient. That is a positive that we are seeing benefits—

Mr. FINCHER. We have made our liquidity problem worse by drying up the market and not allowing banks to be able to loan money to people and help folks out. That is what is happening.

Secretary LEW. —on liquidity, there are important questions but there are a lot of things going on, including where we are in the business cycle and how new markets are developing, how new trading platforms are developing. And I think that it is just oversimplified, to say the only thing happening—

Mr. FINCHER. I only have 15 seconds.

Would you be willing to just work with the committee or provide us with data-driven—

Secretary LEW. Sure. This is an important question, and obviously 5 minutes is not enough time to exhaust it. I would look forward to doing—

Mr. FINCHER. Thank you very much.

I yield back.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentleman from Michigan, Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

And thank you, Secretary Lew, for being here. And Happy St. Patrick's Day.

Before I get to my question, I just want to reiterate something that I know I have raised with you and your staff regarding many communities, particularly in my State and particularly in the district I represent that have been hit so hard over the last several decades that they have markets that are essentially not functioning because of the overhang of abandoned, empty, dilapidated structures for which there is no market and for which there is no market basis to come and take those properties down. There isn't anybody who will come in and take them out because there is no use for the property.

And you have been quite willing in working with us through the TARP program, through hardest-hit dollars, as you said earlier in the hearing today, to tailor the use of those dollars for the particular needs of these communities that have been really struggling to kind of get their markets reset.

I mention that only because obviously we have a bigger problem yet to solve, what we have been able to do with hardest hit has

been very significant. And I would just like to ask that we continue to work together to try to find solutions to that particular problem.

Secretary LEW. Congressman, I have very proud of the work that we have been able to help the City of Detroit do in that regard. I think it has been very significant in the City's whole recovery plan and I have remained in touch, as you know, with the mayor to be of assistance and to provide advice.

Mr. KILDEE. And I know we have had some discussions about HAMP; hopefully we can continue those discussions. There might be a way to kind of get there as well.

Secretary LEW. I wish I could be optimistic—we are looking to see what we can do and I would like to see the City of Detroit be able to continue to remove dilapidated housing. It has had a hugely important effect.

Mr. KILDEE. I appreciate that.

I know there has also been some conversation and I have a question for you on currency issues.

Coming from the auto sector and coming from communities that were so much a part of the development of the automotive industry, currency manipulation, particularly by Japan and other countries, results in us exporting our demand. And when we export demand, we export jobs.

My hometown of Flint, Michigan, has gone from a high of 79,000 people working in the auto industry to about 10,000. And that was over a period of just a few decades, which kind of relates to the incredible problems that we face in trying to reset our markets.

But I read something recently that I was concerned about and I want to ask if you could comment. There is a New York Times piece that quotes you—and I guess we will see if it was accurately quoting you—as saying, “We remain concerned that an enforceable provision”—I am talking about in the context of TPP—on currency could have a negative impact on our ability to protect American workers and firms and set back our international efforts.”

And I guess I am concerned about from our perspective, the perspective I represent when we think about trade is not the problem; trade deficits are the problem. And I see currency manipulation, currency management by our competitors as being not just an important concern but the central issue when it comes to our ability to compete, particularly in the auto sector.

I wonder if you could comment, because it would seem to me that getting a deal shouldn't come at the sacrifice of what I would think is an essential element of a deal and that is the ability to deal with currency manipulation.

Could you comment?

Secretary LEW. Congressman, I think we agree that countries that engage in unfair practices to gain unfair advantages need to be pushed back. We do that through the multilateral channels that we have at the G-7 and the G-20, and the IMF. We do it aggressively on a bilateral basis.

I think that if you look at a trade agreement and whether it should be an enforceable discipline in a trade agreement, is a different question. There are legitimate monetary policies—I think QE in the United States, in other countries, has been a legitimate domestic tool for domestic purpose for there to be the kind of eco-

conomic activity that could promote a recovery. I don't think those policies should be subject to trade review the way other issues are—

Mr. KILDEE. —I don't think any of us believe it. I don't think you believe that QE is tantamount to currency manipulation for trade purposes the way we have seen other countries purchase other assets from other nations in order to do the same thing.

Secretary LEW. I don't, but I know that there are other countries that believed it was at the time. There are other countries that believed it was the United States gaining unfair advantage.

Mr. KILDEE. But even under existing standards, it wouldn't pass the test. So somebody might claim that—I guess my point is that—

Secretary LEW. You don't get to write the standards on your own. And the challenge is in a world where there are standards, we—

Mr. KILDEE. We don't write them—frankly, we don't write them on our own; but we wouldn't sign an agreement that didn't have standards that we thought protected our practice—

Chairman HENSARLING. The time of the gentleman has expired.

The Chair now recognizes the gentleman from Indiana, Mr. Stutzman.

Mr. STUTZMAN. Thank you, Mr. Chairman.

And thank you, Secretary Lew. It is good to see you again. I appreciate you being here.

In your testimony, you said that the IMF is “indispensable to achieving our economic and national security interests.”

You go on to talk about the way that the IMF and the World Bank prop up struggling foreign economies to help prevent extremism. This has been a reoccurring theme from the Administration that if radical Islamic terrorists had jobs, they would drop their weapons.

Unfortunately, a quick news search and what we have seen on the news is that terrorists are actually highly educated young men and women from some of the world's most advanced economies around the world. So I question this jobs theory—and I believe that we should focus on shutting down terrorists' financial resources by whatever means necessary. I did agree with your former Under Secretary for Terrorism and Financial Intelligence, David Cohen, when he told this committee last year that your goal was to financially isolate the Islamic State.

In your opinion, have we been successful?

Secretary LEW. I think we have made a lot of progress. I think that, as I was saying earlier, the challenge is that they have internal sources of funding that are substantial, but we are getting a lot of cooperation from our allies in Europe and in the region. We have more work to do. There are sources of funding within the areas they control that appear, at the moment, to be able to meet more of their needs than we would like. I think we need to continue to try to find ways, as David said, to isolate them. But not just isolate them, to cut off the funding they need to pursue what is really an evil agenda.

Mr. STUTZMAN. So how many Islamic State accounts have been frozen?

Secretary LEW. I would have to check. There aren't a lot of Islamic State accounts. That is not really, I think, the measure; it

is a question of whether or not we are stopping the transactions between parties that are doing business with them or—

Mr. STUTZMAN. Do we know how many transactions we have stopped?

Secretary LEW. I know that if you look at the sources of funding available to ISIL, external funding is not one of the more significant sources over the last year. And that is why I am focusing on the fact that it is complicated. We have tried to cut down their revenue from oil, through a combination of working with countries that have the ability to stop the transactions, but also through military action that has disrupted a lot of the activity.

I am not saying it is 100 percent; they obviously have resources to continue. But if you look at where those sources are, a lot of it is coming from internally, banks that are in areas that they control where they go in and they loot the vault.

Mr. STUTZMAN. Do we have any idea—have any assets been frozen or seized or anything like that?

Secretary LEW. I would have to get back to you, but I would be happy to do that.

Mr. STUTZMAN. Okay. If you could get that information, I would be grateful for it.

I understand that Treasury is deploying new strategies to combat the Islamic State's new funding model, as you mentioned, oil, selling artifacts.

Which of your new strategies has been most successful?

Secretary LEW. Look, I think if you look at the sources of funding, the external sources of funding have not grown. They are not getting the kinds of contributions that other radical and terrorist groups have gotten externally. It is not zero, so there is still more work to do. I think if you look at where they have been exploiting the oil resource, it is a less significant resource than it was.

I think that the challenge is they control large swathes of territory, and their tax system is not sending people letters.

Mr. STUTZMAN. But do we know, do you have any metrics to measure how we are doing? Because it takes—they need money, obviously, to fight this war against us.

Secretary LEW. We do. We have a sense of what their budgetary and revenue situation is, and I would be happy—

Mr. STUTZMAN. What is that? Do you have any idea?

Secretary LEW. First of all, some of it, I would need to do in a different setting.

Mr. STUTZMAN. Okay. Then, how high of a priority is this for you?

Secretary LEW. It is a very high priority. Obviously, the ability for ISIL to function is a question of, do they have the resources?

I think we have to be realistic. As long as they are controlling the ground there, you are not going to dial down to zero their ability to have resources.

We have to make it as hard as possible for them to get external support, and that is what we are doing.

To the extent that they are controlling internal resources, some of them are kind of self-liquidating. If you take a town and you seize the bank and you empty the vault, it is empty. They don't gain new territory. They don't gain new vaults.

The part that is potentially kind of a continuing source is extracting money from people who live in the area, potentially by force. And that is something that we do have a real concern about, but that is not something we can do outside of the area.

Mr. STUTZMAN. Okay. Thank you. If you could get us that information, I would appreciate it.

Thank you, Mr. Chairman.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentlelady from Ohio, Mrs. Beatty.

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

And thank you, Mr. Lew, for coming today.

The good and bad about being at the end of the line is many of the questions have already been asked and answered. But as I was listening to you, you said, "Protect national security."

And that reminded me that a couple of weeks ago, I had several of the bankers in my district come in, small, medium, and large bankers, to talk about many of the broad-range questions that have been discussed here today.

But one of their common themes that they talked about was to empower cyber security and data-breach protection efforts. And they wanted to make sure that Congress and Members of Congress adopt the national standard for protecting sensitive consumer data, and I support this.

As I recall, when you were here before you also talked about the IMF being a powerful tool or promoter of national security.

So when you think of what we are going through in this 21st Century, cyber security is closely linked with national security. I don't think we will get an argument from anyone on that.

Can you tell me what efforts or things that your office is doing in conjunction with the IMF and other foreign counterparts?

Secretary LEW. We have a lot to do, first, on our own in the United States with both public and public-private coordination before we even get to the international question.

We are putting a substantial effort into working in the financial services sector—we are the sector lead on cyber security at Treasury—in making sure that we—the best practices are put in place. I believe that the National Institute of Standards' (NIS) protocols are best practices.

What we have found is that there is a real need to collect and share information. We have done as much as we can administratively to promote that information-sharing. There is legislation pending that we think would be very beneficial to getting us to the next level of being equipped to deal with what I believe is a very profound threat in the area of cyber security.

I don't know the CEO of a financial firm who doesn't spend a part of every day worrying about it. I don't go a day without worrying about it.

It is a reality going forward that we have to put the effort in, both to doing what we can individually do but collectively in a sector sharing information so that we can find and remediate problems and prevent others from being hit if one has been.

On an international basis, I think that we look forward to sharing best practices. It is something that is a bit challenging, because

each of us is individually developing our own domestic best practices in real time.

I have had conversations with some of my international colleagues about it, and they are doing in their systems, in one way or another, what we are doing in ours.

I think if we could raise it up a level and cooperate more internationally, it would be a good thing.

Mrs. BEATTY. Okay. Let me—I have about a minute left.

We also touched on the export industry. I am from the great State of Ohio, and we had the 9th largest export industry in 2014, and in the previous year, that industry allowed us to employ some 259,000 employees. My district also had about 10 percent, or \$5.7 billion, of the \$52 billion worth of goods in the State of Ohio.

You stated that when foreign economies falter, they import less from the United States businesses, and they invest less in the United States.

Can you give me some idea of what the delay on us having Export-Import would do or how it would affect the IMF?

Secretary LEW. Let me separate the questions.

There have been a lot of questions today that have suggested that the IMF shouldn't have intervened when Europe's economy was in a state of crisis. Europe is the United States' largest trading partner. If Europe doesn't recover, their demand doesn't recover. If their demand doesn't recover, they don't buy U.S. goods, which means we don't export.

So we have a very direct interest in making sure that the countries who import from us have functioning economies to maintain demand. So I think we benefit quite directly from that.

The Export-Import Bank is kind of the other side of the ledger. It is a question of whether our companies can compete on a level playing field. And I just don't think in a world where other countries are offering subsidies for exports, U.S. companies should be asked to unilaterally disarm.

Chairman HENSARLING. The time of the gentlelady—

Secretary LEW. That is why we should expand the Export-Import Bank.

Mrs. BEATTY. Thank you.

Chairman HENSARLING. The time of the gentlelady has expired.

The Chair now recognizes the gentleman from South Carolina, Mr. Mulvaney.

Mr. MULVANEY. Thank you, Mr. Chairman.

Just very briefly, to follow up on a question the gentlelady from Ohio asked, you said that not a day goes by when you don't worry about cyber security.

Was that the case when you were at the State Department?

Secretary LEW. Look, I will—

Mr. MULVANEY. Just yes or no? Did you worry about cyber security when you were in State? Then I will go onto the other questions I was going to ask.

Secretary LEW. I wasn't sector head for finance until I was at Treasury.

Mr. MULVANEY. Okay, so you didn't worry about cyber security when you were in charge of operations at State?

Secretary LEW. No, I didn't say that I didn't worry about cyber security—

Mr. MULVANEY. You see my point, Mr. Lew, but we have to move on.

So here are the questions I want to ask you today, because you sent a letter last week about the debt ceiling, something we haven't had a chance to discuss much here today.

You closed the letter by saying that, "The creditworthiness of the United States is not a bargaining chip, and I again urge Congress to address this matter without controversy or brinkmanship." I happen to share that sentiment.

So I thought I would give you the opportunity—

Secretary LEW. I'm glad we agree.

Mr. MULVANEY. —now to try and walk back some of the brinkmanship and take this opportunity to assure the financial markets that interest will be paid on the sovereign debt of the United States.

Look in the camera, and tell people that we have enough money to pay the interest on our debts and we have the technical ability to make those interest payments on the debt and calm the financial markets that might otherwise be roiled by concern over non-payment of debt.

Secretary LEW. Congressman, I hope that we are not going to have another debate like we have had in the past where the world is hanging on whether or not the—

Mr. MULVANEY. I am hoping the same thing, Mr. Lew, and you have the opportunity right now to say, "We have enough money to pay the debt, and we have the ability to pay the debt."

The only thing that prevents us from paying the interest on our debts is whether or not the President chooses to do so. Now, isn't that true?

Secretary LEW. No, Congressman. What I have said many times, and remains the case is, if we hit the debt limit and Congress does not act to extend it, as only Congress can do—

Mr. MULVANEY. Correct.

Secretary LEW. —we do not have the ability to meet all of the obligations of the United States, and it would be the first time in history we couldn't pay the bills of the United States.

Mr. MULVANEY. And you and I have had that conversation—

Secretary LEW. You are asking about one set of bills, and I have acknowledged to this committee that technically, we could make interest payments.

We do not know the consequences of trying to make some payments and not others.

Mr. MULVANEY. Thank you for mentioning that, because you and I have discussed this before. This is not new for either one of us. And I had a chance to ask you the last time you were here a question, because previously you had testified to the Senate that you didn't have the technical ability to prioritize payments.

And then you wrote a letter to us right before your last hearing in front of this committee and said you did have the technical ability to do that.

And I asked you a question, "When did you know that they—in this reference, that is the New York Fed—were technologically ca-

pable of making the payments?” And you said, “The question is not did they make the payments,” and I interrupted you and said, “I am not asking that, Mr. Lew. When did you know that payments could be made?” And you said, “Congressman, I would have to check.”

Have you done that?

Secretary LEW. Look, Congressman—

Mr. MULVANEY. Have you done that? You told this committee you would check on when that knowledge became available to you. Have you done that since the last time you were here?

Secretary LEW. Congressman, what I said to the Senate committee was—

Mr. MULVANEY. I am not asking what you said to the Senate committee; that is not what I asked you.

You told me you would check to find out when that knowledge and information was made available to you. Did you do it?

Secretary LEW. I have done it, but if you are asking me today, could I tell you the date, I can't tell you the date.

Mr. MULVANEY. So you didn't know last time you were here, and then you knew, and you have forgotten again, and now you don't know again?

Secretary LEW. Look, Congressman—

Mr. MULVANEY. Is that what you are saying?

Secretary LEW. —the question is, we do not have the technical ability to go through all the bills the United States pays and say, “We are going to pay this one and not that.”

The technical question of, “Can we pay interest,” yes, we can. But what about benefits to Social Security? What about veterans? What about vendors? What about electric bills?

Mr. MULVANEY. And we have had that conversation, Mr. Lew.

What about the money for giving Swedish massages to bunny rabbits? We do that.

What about money for studying whether or not sea monkeys synchronize when they swim? Are those payments just as important as paying the interest payments on our debt?

Secretary LEW. Congressman, I believe that the United States is a country that makes a commitment. It pays its bills. When we make commitments to veterans, we pay the veterans.

Mr. MULVANEY. We believe that. Mr. Lew—

Secretary LEW. When we make commitments to Social Security, we pay Social security.

Mr. MULVANEY. —that is not the issue. Let's come back to the original issue.

Secretary LEW. I don't believe they have the ability to make the kind of decisions—

Mr. MULVANEY. Why won't you take steps to satisfy and calm the financial markets, in this country and around the world, to let everybody know who holds U.S. debt that their interests will be paid. Why won't you do that?

Secretary LEW. The only way for the United States to make all of its commitments—

Mr. MULVANEY. Did I ask you that? Did I ask you about all payments?

Have the words “all payments” come out of my mouth in reference to a question? Why won’t you do that? I have 30 seconds.

Secretary LEW. Congressman—

Mr. MULVANEY. Here is my point to you, Mr. Lew—you want the brinkmanship. You need the brinkmanship.

Secretary LEW. No, Congressman—

Mr. MULVANEY. You need the brinkmanship. You need the threat of financial turmoil in order to accomplish what you want to accomplish politically, and all I am asking you to do is do your job, and calm the financial markets and say, “Look, interests payments will be made.” Why won’t you say it?

Secretary LEW. Congressman, my job is to make sure we can pay all of the bills of the United States. I cannot do that unless Congress extends the debt—

Mr. MULVANEY. Thank you. So we will agree with that. Can we pay the interest?

Secretary LEW. Congressman, you cannot—

Mr. MULVANEY. Do we have enough money to pay the interest?

Secretary LEW. Congressman, you cannot preserve the full faith and credit of the United States if you don’t honor the debt—

Mr. MULVANEY. I cannot believe, Mr. Chairman, that I have the Secretary of the Treasury of the United States here, who has the opportunity to satisfy our debtors, both domestic and internationally, that we will pay our debts with interest at the appropriate time, and he refuses to do so. It is a dereliction of duty.

Chairman HENSARLING. The time of the gentleman has expired. The Chair now recognizes the gentlemen from Illinois, Mr. Hultgren.

Mr. HULTGREN. Thank you, Mr. Chairman.

Secretary Lew, policymakers from across the political spectrum should be able to work constructively together to refine at least some parts of Dodd-Frank, especially those that most damage our economy. You have heard it certainly from both sides of the aisle about the pain that banks, especially community banks, are feeling, but so many others as well.

Unfortunately, during his State of the Union address on January 21, 2015, the President threatened to veto any legislation passed by Congress that he viewed as unraveling the new rules on Wall Street.

You have echoed the President’s sentiments in an op-ed you published in the Washington Post in January. This committee has passed a number of bills over the past 2 years, many of them with overwhelming bipartisan support to address unintended consequences or harmful effects of provisions of the Dodd-Frank Act. Virtually without exception, the Administration has opposed these efforts. In May 2013, you personally signed a letter expressing opposition to several bills then under consideration in this committee, making largely technical changes to Title VII of the Dodd-Frank Act.

One of those bills, to exempt commercial end-users from the margin requirements imposed by Title VII, passed the House by a vote of 411–12.

Another relating to the swearing of swap-related information with foreign regulators passed the House by a vote of 420–2. A

third clarifying the treatment of derivatives trades entered into by non-financial end-users with affiliated entities passed the House by voice vote, a unanimous vote.

The Administration's unwillingness to support even these modest changes to Dodd-Frank, each of which commands virtually unanimous support from Republicans and Democrats, suggests that nothing we send the President will be deemed fit for his signature.

The Administration's insistence on defending the Dodd-Frank brand at all costs is made all the more mystifying by the fact that the primary author of the law, our former colleague, Barney Frank, has identified a number of provisions that he believes should be revisited.

What's more, then-Fed Chairman Bernanke, in his last hearing with us, listed multiple bipartisan legislative reforms that policymakers could unite around to improve our financial regulatory system. They both recognized that a law that runs to 2,300 pages and imposes at least 400 mandates cannot possibly be perfect, and that changes are therefore warranted.

Put another way, we shouldn't treat Dodd-Frank as the 10 Commandments handed down from on high and demanding our complete devotion.

So, my first question for you, Secretary Lew, is, what reforms could we pursue that you would not label as unraveling Dodd-Frank? For example, in an appearance before the committee last July, Chairman Frank labeled as arbitrary Dodd-Frank's \$50 billion threshold for automatically designated banks as systemically important.

Would the Administration consider modifying Dodd-Frank's SIFI's threshold? Yes or no?

Secretary LEW. Congressman, as I said earlier, we treat \$50 billion institutions differently than trillion-dollar institutions, both in the law and in the regulations. And there is substantial regulatory flexibility, which I believe should be used to address the different circumstances—

Mr. HULTGREN. Would you support changes in Dodd-Frank that would recognize those differences?

Secretary LEW. I am not of the view that it requires legislation right now until we know that the administrative flexibility is inadequate. I think some of the earlier cases that you cited were pieces of legislation that were being passed while the rules implementing the original law were still being drafted.

I don't disagree that a complicated piece of law is not holy writ. On the other hand, I don't think, if we look back over the last 4 years, there has been a serious effort to repeal Dodd-Frank and to undermine some of its core protections that have made our financing—

Mr. HULTGREN. The thing I wanted to point out in that with those passages, where they were passed in a bipartisan nature—unanimous, some of them—so, to say that this shouldn't have happened or it was premature—I think the vast majority of people up here on Capitol Hill disagree with you. And I also think the financial markets disagree with you that this is necessary.

In the same testimony, Chairman Frank supported exempting banks below a certain asset threshold from the Volcker Rule. Sev-

eral regulators, including the Comptroller of the Currency and Federal Reserve Governor Tarullo have expressed similar sentiments.

I wonder, would the Administration consider a small bank exception from the Volcker Rule? Yes or no?

Secretary LEW. Just to be clear, the only small banks that are a factor are those that engage in proprietary trading. And the standards that—the compliance for small firms reflect the differences between small firms and large firms. I think the challenge is to make sure that all of our financial institutions are as safe and sound as—

Mr. HULTGREN. I see the challenges getting the Administration to work on some of this and stop protecting a law that its author has said needed some changes. It was passed in bipartisan ways over and over and over again, of common-sense reform. Any legislation that passes out of here can be improved. And absolutely, this is a law that could be improved. It would be very helpful if the Administration would join with us in trying to make some of those improvements.

My time has expired. I yield back, Mr. Chairman.

Chairman HENSARLING. The Chair now recognizes the gentleman from Florida, Mr. Ross.

Mr. ROSS. Thank you, Mr. Chairman.

And, Mr. Secretary, thank you for being here. Read nothing into the fact that I am on your extreme right here today.

But I do want to talk to you about something that I think that we have some bipartisan support to address. Recently, just last month, FSOC came back with some regulations dealing with transparency with regard to systemically important financial institutions. And while I think it is a step in the right direction, I am concerned that it didn't go far enough.

They did not address concerns about how to mitigate systemic risks. It did not create a process that would reduce potential threats to the financial system by allowing the company or its primary regulator to identify risk before designation.

For example, under today's law, as it exists today, a non-bank financial institution that is being considered as a SIFI doesn't really have any guidance to be made aware that they are going to be in this particular situation. They don't have any mechanism that FSOC can provide them with about their profile to help them get out of it. We have gotten no notice. And my concern is that, while transparency is very important, we have to make sure that if our ultimate goal is to remove them from a SIFI designation, that they have the opportunity by way of notice, by way of guidance, in order to get out of there.

And so, I have some proposed legislation that has some bipartisan support that I will be filing here shortly. But it addresses the method and manner by which FSOC would deal with systemically important financial institutions, specifically non-bank ones.

Wouldn't you agree that FSOC's primary focus should be to identify and ensure that systemic risks are addressed, rather than simply delivering a non-bank entity to the Federal Reserve for yet another undefined regulation?

Secretary LEW. Congressman, I think that if you look at the new procedures that we adopted, they were very much designed to engage with firms earlier, and—

Mr. ROSS. And would you not agree then that codifying these rules may be a good position?

Secretary LEW. I can't—

Mr. ROSS. Because your successor may take a different position. And, obviously, this seems to be a step in the right direction.

Secretary LEW. I think if you look at the evolution—FSOC is a 5-year-old organization. It had a good initial set of rules. It now has a refined approach.

There was a lot of communication going on, even before the new rules changes. So, it is not as hard of a change as—

Mr. ROSS. But I guess you would agree that the rule change—

Secretary LEW. I don't think there is any going back. I think these things move forward, not—

Mr. ROSS. To a greater degree of transparency and procedure? Would you not agree?

Secretary LEW. Look, I think we have tried since I have been Chair of FSOC, on multiple occasions, to expand the transparency, to increase the communication. And we will continue to look for opportunities to do that.

I don't think that—

Mr. ROSS. But returning them to the Fed for regulation when it may not be their primary regulator, might not be the best way to impress this.

Secretary LEW. Look, the process of designation is one where the responsibility on FSOC is to determine whether or not there is a systemic risk.

Mr. ROSS. Correct.

Secretary LEW. The remedy is prescribed in the statute that the Fed supervises if that determination is made.

Mr. ROSS. And with regard to, let's say, for example, international standards. We have—FSOC is dealing with the global systemic financial institutions. And I think that there have been some concerns that, for example, the independent insurance expert on FSOC said that, "different types of non-bank financial companies may be receiving disparate treatment both in the Council's analysis and processes." Is this something that you would agree with, that we might need more aggressive representation on behalf of the insurance industry when dealing with these global capital standards involving insurance companies?

Secretary LEW. I think that our representatives have been advancing the interests of the United States in this process effectively. There has been a lot of communication between Federal and State officials, between private sector and government—

Mr. ROSS. But understanding the impact that it could have on our domestic insurance market if we have to impose upon them international standards, which we had a chance to preempt, had we had a little bit more aggressive representation.

Secretary LEW. Yes. I think that the representation is appropriate. The consultation is appropriate. There is obviously a lot of interest and a lot of consultation.

Mr. ROSS. Lastly, I want to address one thing with regard to asset managers. The American Action Forum did a study in 2014 and found that additional capital requirements on asset managers could cost American retirees at least \$100,000 in potential savings accumulation. And they get this because they say that now with these increased capital standards, which is as much as 8 percent—and most of the people who invest in these funds are saving for retirement, saving for college funds. This has a significant impact on mom and dad and grandma and grandpa, who are trying to set aside for the future.

Does FSOC take into consideration the impact that this has on the bottom line of these individual savers?

Secretary LEW. The way FSOC goes through the process of determining whether or not a firm presents the kind of financial stability concerns is by going through an analysis of what the firm's—

Mr. ROSS. And they should take that into consideration.

Secretary LEW. That is the principle.

Mr. ROSS. Because we want to protect the consumer—

Secretary LEW. But just to be clear, asset managers, as we went through the process and came to realize that there were more concerns about specific activities than necessarily the firms that were being looked at. We also took a step back and shifted the focus to look primarily at activities that may need attention. I think that shows the openness of the process and we are learning as we go through.

Chairman HENSARLING. The time of the gentleman has expired.

For the benefit of the witness and the remaining Members, it is the Chair's intention to clear the present queue, and allow no other Members in the queue. Votes are expected on the Floor sometime within the next 15 to 30 minutes. We will attempt to clear the queue prior to votes.

The gentleman from North Carolina, Mr. Pittenger, is now recognized.

Mr. PITTENGER. Thank you, Mr. Chairman.

Mr. Secretary, my questions relate to terror financing. I would like to ask two questions and I hope to get some precise answers.

My first question involves information-sharing between the United States Government and terror financing. Mr. Secretary, the Financial Crimes Enforcement Network, FinCEN as it is known by, has two responsibilities, as I understand it: oversight of financial institutions to prevent money laundering; and information-sharing among the agencies.

With that in mind, it is my understanding that U.S. law enforcement, including the U.S. Customs and Border Patrol, have access to FinCEN data, but can only access the database in the case of specific situations and they must request that, but there is no information-sharing agreement between Treasury and Customs.

This seems to me to be very illogical and would impede our ability to be effective, particularly in view of the enormous growth in trade-based money laundering. I would really appreciate a very precise response or explanation of when this will be corrected and if this can be done without any further legislation.

Secretary LEW. Congressman, I would be happy to get back to you on the specific question about what the agreement for data

sharing between FinCEN and the Customs and Border Patrol is. In general, there is cooperation with law enforcement entities, but obviously it is within boundaries to protect the fact that we have access to information that shouldn't be shared broadly.

I would have to check on the specific documentation.

Mr. PITTENGER. Mr. Secretary, these are two government agencies that are dealing with terrorism and trying to avert that. You have been the head of operations of the State Department and certainly understand the importance of agencies working together. Has it occurred to you to maybe sit down with Secretary Johnson and try to hammer out an agreement?

Secretary LEW. I do sit down with Secretary Johnson on issues that are brought to my attention, that require us to meet. I have to look into this question—

Mr. PITTENGER. Can you suggest to me any reservation that you have or why we would not have an agreement—a working agreement between Customs and between the Treasury?

Secretary LEW. Congressman, I start out with a strong bias that we ought to work as one government. We ought to cooperate and collaborate. And I have spent most of my career trying to take some of the boundaries and barriers down. So I start out sympathetic.

Mr. PITTENGER. Mr. Secretary, you said earlier in your testimony that we have very aggressive and effective laws for the banks. You said that we have systems in place for the banks. This seems to be a very prudent system to have in place to be able to identify important data for tracking terrorism financing.

Secretary LEW. Yes, so Congressman, I am happy to get back to you. It has not been brought to my attention that there has been an issue between Treasury and CPB. I am happy to—

Mr. PITTENGER. Would you agree with me that there should be an agreement, an information-sharing agreement between the two agencies?

Secretary LEW. I agree there should be cooperation to the maximum extent we can to do our jobs. Because there is sensitive personal information involved here, obviously, there are limits—I can't tell you without looking into it—

Mr. PITTENGER. Okay. I have one more question.

Mr. Secretary, of course, as you know, the terrorists are seeking other ways to obtain their financing. Cybercrime clearly is a major growth industry for them. We continue to identify the hackers. However, they live in jurisdictions like the former Soviet states with which we have no extradition treaties. I am thinking of Ukraine in particular.

But I would like a precise discussion on how we can proceed with cybercrime extradition there and in similar other countries.

Secretary LEW. Obviously, we have taken actions and some of those legal actions have limits because of extradition. We can't compel extradition where there aren't extradition treaties. What we can do is look at what other tools we have, where we see evidence of cybercrimes. And we are looking to see what other tools we have available.

Mr. PITTENGER. Regarding the current concerns we have today, is it on your agenda to try to work out these extradition agreements with these countries?

Secretary LEW. Obviously, extradition is not my—

Mr. PITTENGER. But as you see the problem, do you believe that this is something that should be on the agenda?

Secretary LEW. I would say it is on my agenda to look at what we can do if we don't succeed with extradition. I leave the question of extradition to the Justice Department.

Mr. PITTENGER. Could you get back with me on this information-sharing agreement?

Secretary LEW. Sure. I would happy to get back to you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Connecticut, Mr. Himes.

Mr. HIMES. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being here, for your patience and your even-handed focus on our international organizations and obligations.

I want to ask a question which is related, but tangential, to international policy, specifically with respect to the upcoming potential trade agreements. As you know, we are having a vibrant discussion on our side of the aisle about these trade agreements.

One of the concerns and criticisms leveled at TPP in particular, but other trade agreements as well, would be that in particular the investor dispute resolution mechanism could open an extra-judicial path to the alteration of our financial regulatory structure, and could result in elements of Dodd-Frank being changed or eliminated. That is probably greeted with some joy on the other side of the room, but concerns us over here quite substantially.

So I wanted to just give you a couple of minutes to give us your perspective on whether we should be concerned that investor dispute resolution could in fact erode some of the protections that many of us really fought hard for.

Secretary LEW. First, I would say if you look at the history on investor-state dispute settlement, I don't believe the United States has ever lost a case. So our track record is strong. There is a reason for that. We have a system of law. We have an even-handed way of administering the law. And our system I think will continue to be durable even if there were challenges.

When you look at why it is an important issue, when American businesses are doing business abroad, there are concerns about things that could amount to expropriation or certainly blocking the ability to take capital out. I think that the history of investor-state disputes has been to give companies the ability, individual investors the ability to defend their interests. It is not meant to undermine organic laws that are legitimately in place.

To the extent that there have been concerns, that there has been maybe some overly aggressive use of investor-state disputes, I know that is something that negotiators are looking at dealing with in the context of this negotiation.

Mr. HIMES. The facts as I have heard them are that the United States has been subject to 16 actions in the investor dispute area, all 16 of which we have won. But let me push you a little bit here.

I heard you say that Dodd-Frank and other statutes would be durable. I am not sure that is good enough for some of us.

You said it is not meant to undermine our regulatory structure. I am hoping you can paint a slightly more granular picture of that because obviously we would be quite concerned if all of a sudden after the work of this body—

Secretary LEW. I agree.

Mr. HIMES. —we found ourselves—Dodd-Frank being amended because the Koreans brought an action.

Secretary LEW. I totally agree. Yes, I don't think we are—we face the risk. If you look at—one of the issues is foreign banks being subject to Dodd-Frank, that is well-based in U.S. law. That is not at risk of being reversed in an investor-state dispute.

It is really meant to deal with the kinds of policies that are not based in the kind of legal foundation that a law like Dodd-Frank is.

Mr. HIMES. So you don't regard, just based on what you know, and you probably know more than most of us about the negotiations around TPP in particular, you don't believe that there is a meaningful risk that a trade agreement would essentially undo the work of this—

Secretary LEW. No. I will tell you that moving from TPP to the Transatlantic Trade and Investment Partnership (TTIP), we have assiduously resisted bringing prudential regulation into the scope of a trade agreement because we agree 100 percent that prudential regulatory standards are not something that should be overturned by some trade review.

I don't believe that ISDS gives you the ability to do that. We certainly have resisted in the context of TTIP doing it through the front door. And I agree 100 percent that we ought not to put our prudential regulations up for review in a trade context.

Mr. HIMES. Thank you. Thank you, Mr. Secretary.

Mr. Chairman, I yield back the balance of my time.

Chairman HENSARLING. The gentleman yields back.

The Chair recognizes the gentleman from Pennsylvania, Mr. Rothfus.

Mr. ROTHFUS. Thank you, Mr. Chairman.

And thank you, Mr. Secretary, for being with us today. It is past one o'clock already.

In 2014, the so-called BRICS countries—Brazil, Russia, India, China and South Africa—agreed to establish a new development bank to finance infrastructure and development projects around the world. The countries jointly contributed \$50 billion in initial capital for the bank and it is expected that the bank will start functioning and financing projects by the end of this calendar year.

Many see this as a direct challenge to both the IMF and the World Bank. Perhaps because they have more recent memories of the lack of electricity in their own countries, and they continue to build out their grid, the BRICS countries have a very different view of fossil energy than the IMF, the World Bank, and the President of the United States.

While we unfortunately continue to pursue policies that are squarely aimed at killing coal and coal-related projects, the BRICS countries continue to give strong support to their coal industries

and leverage them to drive economic growth through reduced energy prices through exports.

Experts agree that the new development bank will play a significant role in the financing of new coal-fired power plants around the world, particularly in developing countries that are desperate for affordable and reliable energy.

While this is certainly good news for these countries, it also negates the policies of this Administration, the IMF and the World Bank to prevent these coal projects from being financed.

Given what the new development bank is doing, why does the Administration continue to pursue its misguided anti-coal policies?

Secretary LEW. Congressman, our objective is to promote sustainable energy resources to be developed—

Mr. ROTHFUS. And won't that objective result in just funneling developing countries to the doorsteps of Russia and China?

Secretary LEW. Look, to the extent that you are talking about very poor countries that don't have an alternative to coal, our policies provide, assuming that appropriate technology is used, for financing those projects.

Mr. ROTHFUS. Are those policies consistent with what the new development bank—

Secretary LEW. Part of the challenge is none of us know the policies of these new international institutions.

Mr. ROTHFUS. The policy is that they are going to fund these projects.

Secretary LEW. Yes, I—

Mr. ROTHFUS. And my question is, won't this actually do more harm to the environment because it will just result in many more coal projects being built using Chinese and other foreign technology that is not as advanced and clean as ours?

Secretary LEW. Frankly, I think the challenge we have is for the United States to continue to show its leadership in the international financial institutions that we have helped build. It is one of the reasons that IMF reform being ratified is so important.

Our ability to keep action in the organizations that have high standards is critical to our leadership. I think that it is not an accident that emerging economies are looking other places because they are frustrated that, frankly, the United States has stalled a very modest and reasonable set of reforms in the IMF.

We will make—

Mr. ROTHFUS. I would suggest that maybe they are going to go to the new development bank because they know that they can get their coal project financed, and they can't do it through the IMF or the World Bank because of this Administration's policies.

Secretary LEW. And I know that there are other countries who are joining those institutions that are also concerned about environmental standards. And I think that those issues are going to have to be worked out as the new banks develop their rules.

What we are responsible for is what we do directly and what we do through the institutions for which we are playing the leadership role.

Mr. ROTHFUS. I wanted to ask you a quick question, because I saw this in your written testimony. You didn't bring it up in your oral testimony. But you said that when it comes to global chal-

lenges such as the environment, food insecurity, and gender imbalances, the world continues to rely on multilateral institutions and strong U.S. leadership within them to help developing countries make concrete investments to meet these challenges.

It is tangential, but there is a huge gender imbalance in Asia. There are 15 to 20 million missing little girls because of a coercive one-child policy that China has and the disproportionate impact that has had on little girls. It is safer to be an unborn little boy than an unborn little girl in China.

Can you point to anything that this Administration has done to address that gender imbalance?

Secretary LEW. Congressman, I think that there are a lot of things in China that they need to take a hard look at. Obviously, this is a policy that they are continuing to review. And I certainly hope that they have a change—

Mr. ROTHFUS. I would suggest it might be helpful if the President didn't rescind the Mexico City policy.

Tell me something, when you were Deputy Secretary at the Department of State in 2009 and 2010, did you ever send an email from a non-State Department email account to Secretary Clinton or any other State employee?

Secretary LEW. It has been quite a while ago, Congressman. I generally used my government email. So—

Mr. ROTHFUS. So you are saying it is possible you would have used a non-State Department email address to send something to Secretary Clinton?

Secretary LEW. Congressman, I used my official email for emails.

Mr. ROTHFUS. Did you ever receive an email from Secretary Clinton from a non-State Department email account?

Secretary LEW. I would have to go back and check.

Mr. ROTHFUS. What about when you were White House Chief of Staff?

Secretary LEW. That was a long time ago, Congressman. I don't recall.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Colorado, Mr. Tipton.

Mr. TIPTON. Thank you, Mr. Chairman.

Mr. Secretary, thank you for taking the time to be here.

In your opening statement, you talked about the American recovery that is going on right now, but I did note that you did not speak to the point that we have the lowest labor participation rate in 37 years, that we are seeing, for the first time, more small businesses shut down than there are new business start-ups in this country.

And one of the important issues that we have, particularly in rural areas like the one I represent, is access to capital from our community banks that is going on.

Recently, Senator Warren stated that the financial performance of the community banks shows that Congress and the regulators have done a pretty good job of tailoring the rules to be able to protect community banks. Do you agree with that?

Secretary LEW. I have said in response to several questions that I think that the law and the regulations implementing the law have taken account of the differences between small, medium, and

large institutions. There may be additional flexibilities that need to be used, but I generally agree that there has been a lot of attention paid to not treating all financial institutions the same.

Mr. TIPTON. Let me give you an example in my district. I just met with a small community bank in Delta, Colorado, the Colorado First National Bank. They said that the burdensome capital requirements and excessive regulations require money to be spent on just complying with regulations, as opposed to being able to grow the bank and being able to have access, and availability of capital through loans for that local community bank.

And they said the bottom line is, they really feel that they no longer run their bank, but it is being run by the Federal Government and by regulations.

What do you tell that small bank?

Secretary LEW. Look, I know that there are a lot of pressures on financial institutions of all sizes. What I would tell that bank is that we have designed rules and the regulators have designed rules to try and take account of the differences in terms of the level of reporting and what is required. And it would really depend what the specific issues were.

Mr. TIPTON. Now, you have spent a fair amount of time being concerned about small community banks and addressing that in your meetings?

Secretary LEW. Yes.

Mr. TIPTON. You have. That is interesting, because we did a review of the minutes of the 40 FSOC meetings conducted from 2010 to 2014 and it yielded not a single reference—not a single reference—to community banks or the effect that regulatory burdens are having on their viability.

When did you talk about it?

Secretary LEW. Many of these issues are not FSOC issues writ large. Individual regulators—

Mr. TIPTON. Yes, under Section 112 of the Dodd-Frank Act, that is your responsibility.

Secretary LEW. I have over the last 2 years since I have been Chairman of FSOC, taken seriously the coordination responsibility, particularly in areas that involve some of the housing issues. And there have been conversations.

But it is not in the context of an FSOC meeting, because it doesn't—it is in the jurisdiction of the individual regulators.

Mr. TIPTON. There is no mention of dealing with small banks and you haven't dealt with that in those meetings? I want to be able to drive home a point that we are really—

Secretary LEW. We have not ruled out doing a more formal review, but we have been in the implementation stage, where agencies had the first round of implementing Dodd-Frank on their plates, and that is really what we have been engaged in.

Mr. TIPTON. I would like to go back, actually, to the chairman's first line of questioning, in regards to the FSB, because I am not really sure I heard an answer to that question.

When the FSB tells members that they expect full, consistent, and prompt implementation on agreed reforms on international finance systems, is he assuming that you will obey?

Secretary LEW. I think that it is well-known that the decisions on decision-making in each country are made by the national authorities in that country. We have always been clear that we retain control of—

Mr. TIPTON. When did the FSB—I think it was MetLife, when did they determine that they were going to be a SIFI?

Secretary LEW. I would have to go back and check the date, but we made an independent determination in FSOC that—

Mr. TIPTON. How long after the FSB made the determination?

Secretary LEW. The FSB's review and the FSOC review were entirely separate.

Mr. TIPTON. Okay. Are decisions made by the FSB, do you believe those to be binding on Treasury or—

Secretary LEW. I believe that what the FSB process does is it permits us as the country with the highest standards to drive the global standards to a higher level, which makes it a safer financial system and a more level playing field for the United States.

But in each case, countries ultimately retain their own national authority over their regulatory activities.

Mr. TIPTON. So, is it—again, I'm sorry, but I am just not really hearing the answer, truly, to that question. Once the FSB makes it, do you view that as being binding? That was kind of the original agreement.

Secretary LEW. Yes. I don't think there is anything about participation in the FSB that relieves national authorities from the ultimate responsibility for making their own policy.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair recognizes the gentleman from Texas, Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman.

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

I will be somewhat brief here. I am a small business owner. I am a Main Street guy. I employ a lot of people. I am a job creator. And I am an auto dealer. And I would say this, just really quickly, I heard you say earlier that before we could address the \$50-billion-or-under banks, we need to get Dodd-Frank completed first.

I would just ask you, don't wait that long. It is the worst legislation I think we have seen in a long time. And you can't wait that long because if you wait that long, you are going to lose small businesses. You are going to lose banks. We are going to lose jobs.

So I would just humbly ask you to think about addressing that before you totally ramp out the complete Dodd-Frank Act, because I can tell you from a banker's standpoint, people are actually—they will tell you they are hiring more regulatory officers than they are loan officers. That is a real problem.

With that being said, let me say this, you said the U.S. economy looks like a well-oiled machine when compared to foreign markets. And I would just say, an \$18 trillion debt is not a well-oiled machine. And that statement bothers me.

The long-term outlook, I believe, for the U.S. economy is not that great. It could be considered bleak. Just last week, the Congressional Budget Office issued a report that estimated that President Obama's budget would add nearly \$6 trillion to the deficit over 10 years. Let me repeat, that is \$6 trillion added to the deficit we have now.

That is debt held by the American public. It is projected to grow rapidly as a share of the economy grows in the years ahead, rising from 74 percent to day to 106 percent in 2039.

Now, the rising cost of debt will have significant consequences, we all know, on the economy and the Federal budget. So, let me ask you this: You stated that every week we roll over approximately \$100 billion in U.S. bills. And if U.S. bondholders decide that they wanted to be repaid rather than continuing to roll over their investments, we could unexpectedly dissipate our entire balance.

Now, with that being said, do you think it is healthy for the Treasury to be forced to rely on reissuing securities to make principal payments on securities coming due? And how is that any different from taking out cash advances on a credit card to pay bills on another credit card?

Secretary LEW. Congressman, we have the deepest Treasury market in the world.

I think that if you look at the progress we have made on fiscal policy in the last 6 or 7 years, it has been enormous. We had a deficit that was just about 10 percent of GDP. It is now coming below 3 percent of GDP. In the 10-year budget window, we stay that way.

I think if you look at the challenges we have in the near term for this country, it is that we do the things we need to do to keep our economy growing, and that means investing in people and education, it means investing in infrastructure, and frankly, it means investing in defense.

One of the problems I have with the budget that is being unveiled today is that it short-funds the critical things we need to defend our country and to build a strong foundation for the future.

What we need is a bipartisan conversation about how to maintain a responsible fiscal path.

But with all respect, the fiscal position today versus when this Administration took office is vastly improved, and I think we have done a lot of hard work to get there.

Mr. WILLIAMS. I know in the past, you and I have discussed—you have never really been in the private sector. I have only been in the private sector.

I am going to tell you, the economy is not that good. When you have the high unemployment we have, the people on food stamps—we can get into that—it is not that good.

But you didn't really answer my question when you said that—if the bondholders decided they wanted to be repaid, could we do it?

Secretary LEW. The challenge that we have is making sure that we remain able to fund all of our needs. That means funding new debt. It means rolling over old debt.

If you look at the way our trajectory looks, you are going to 2039—the budget for the next 10 years, for the period immediately beyond that, we stay in the sustainable level of both deficit and debt as a percentage of GDP.

And there is a lot of work we still need to do going forward on a bipartisan basis, but we have made enormous progress.

Mr. WILLIAMS. Let me ask you one other question before my time is up.

CBO projects that interest on the national debt will make up 90 percent of the deficit in 2023. That is a huge figure.

How can we expect to see balanced budgets if future interest payments on debt will continue to force deficit spending for decades when we say an \$18 trillion deficit is a well-oiled machine?

Secretary LEW. Congressman, the goal of reaching what is called primary balance is to not anything but debt payments that are the reason for the deficit. So it will become a larger and larger percentage of the deficit as we approach primary balance. That is what that statistic reflects.

If you look at the international standard, primary balance is the goal that most countries look at, and that international institutions look at, for sustainability.

Mr. WILLIAMS. I yield back, Mr. Chairman. Thank you.

Chairman HENSARLING. The time of the gentleman has expired.

The Chair wishes to advise all Members that there are votes pending on the Floor, with 8 minutes, 55 seconds left. Apologies to Mr. Schweikert, Mr. Poliquin, and Mrs. Wagner.

The Chair intends to clear one more Member, the gentleman from Arkansas, Mr. Hill, to accommodate the Floor schedule and the Secretary's schedule, and then we will adjourn the hearing.

The gentleman from Arkansas is recognized.

Mr. HILL. Thank you, Mr. Chairman.

And thank you, Mr. Secretary. It was certainly a pleasure in my career to have spent 4 years working at the Treasury for one of your predecessors, and I enjoyed those days.

Following up on Mr. Lucas, Mr. Stivers, and Mr. Tipton, I want to talk a little bit about this community bank approach, as well.

Section 112 under the—resolving regulatory conflicts and looking at burdensome regulation, really does give the FSOC a lot of power—to be a leader, which I think is the purpose of the FSOC.

And I agree with Mr. Williams that I encourage you to take that mantle that all of us in government do, which is, you can do more than one thing at a time, which is that management responsibility in addition to trying to implement Dodd-Frank.

Secretary LEW. Congressman, as I indicated earlier, we have not ruled out using it, and I am happy to take another look at whether it is an appropriate time.

Mr. HILL. Good.

I would like you to consider the use of cost-benefit analysis at the FSOC level in looking across the regulatory system generally. What would be your thoughts about that?

Secretary LEW. The cost-benefit analysis has many different meanings. If you look at the broad cost to the U.S. economy of the financial crisis in 2008, it was enormous. It wouldn't have shown up in any cost-benefit analysis that was done before the crisis itself.

So we have to find a way of looking both at the impact on a firm when you ask the question of cost-benefit analysis but also the entire economy. And I think balancing those considerations is part of what the whole Dodd-Frank lawmaking and rulemaking process has been about, to try to make it more costly to do things that are risky, internalize those costs, and to protect the general economy and the general public.

Mr. HILL. You have had two positions now that I think have a prudential responsibility, at OMB and at Treasury, and these are important places to look out for that economy generally and not get down in the weeds of an individual regulator.

But there are regulations that while well-intentioned, have costs that exceed their benefits.

Just this week, I got a letter from a banker that—looking at the ability to repay rules under Dodd-Frank, they looked back, and they used to have an 85-percent approval ratio for their 1:4 family mortgages, and now it is under 40 percent because of the burden of those rules.

And so one way to use a cost-benefit analysis when you are looking, like, at residential lending is to look at all the rules, not just Dodd-Frank rules but the Qualified Mortgage rule, the effect of appraisal rights, et cetera.

So I encourage you to do that.

And I encourage you, like Mr. Stivers, to put on the agenda of the FSOC the burden on regulatory institutions as an official agenda item.

On another topic, I asked you for copies of the Fannie Mae and Freddie Mac conservatorship agreements over a month ago, and I have yet to get a document. Could that be put on the list, and could I have that sent to me, please? I have the preferred stock arrangements with those two companies, but I need the conservatorship arrangements.

Secretary LEW. I will look into it.

Mr. HILL. Have you—on this email issue, I think American people are really frustrated by it, and I would urge everybody in the Administration to be focused on this.

The IRS example on losing emails—all of us in the private sector would be excoriated by regulators were we to lose our emails.

Have you changed the policy at the Treasury since the IRS matter came up in terms of tracking and managing and overseeing them?

Secretary LEW. The Treasury policy is that we do our business on official email and that at least for the main Treasury, there is preservation.

The IRS system is a little bit different, and I know that every effort is being made to recover what was lost. I will have to get back to you on the—

Mr. HILL. Please do, because it is this double standard that frustrates American taxpayers and business owners, like in FINRA for regulated broker-dealers. The rule is all electronic mail and text has to be retained in a non-rewritable, non-erasable format, and subject to daily review by a regulator or management and a 3-year retention.

It doesn't strike me that that is the standard in the Executive Branch.

Is that a good standard, that FINRA standard, sir?

Secretary LEW. Obviously, it is a standard that keeps email available for regulators to see, and that is—

Mr. HILL. So if regulators should be able to see the emails within a broker-dealer, shouldn't we would be able to see all the emails in an Executive Branch agency?

Secretary LEW. There obviously are differences, but I am happy to take a look at it and get back to you.

Mr. HILL. Thank you very much. I yield back, Mr. Chairman.

Chairman HENSARLING. The gentleman yields back.

Members are advised that there is less than 4 minutes left on the vote on the Floor. No more Members will be recognized for questioning.

I wish to thank the witness for his testimony today.

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 1:33 p.m., the hearing was adjourned.]

A P P E N D I X

March 17, 2015

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**Testimony of Secretary Lew before the House Committee on Financial Services on the
National Advisory Council on International Monetary and Financial Policies
March 17, 2015**

As prepared for delivery.

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

The U.S. economy continues to make considerable progress. By almost every metric, America has come a long way since the depths of the worst recession since the Great Depression. Last year, we saw the best year of job growth since the 1990s, and over the past five years, America's businesses have created 12 million new jobs — the longest stretch of sustained private sector job growth in our nation's history.

Our economy grew by 2.4 percent last year, and private sector forecasters expect the economy will grow roughly 3 percent this year, while the International Monetary Fund recently revised its U.S. growth estimate higher, expecting 3.4 percent growth in 2016. We continue to outperform our trading partners, many of which are still struggling to recover from the global economic crisis. American exports set another record last year for goods and services sold overseas. And our fiscal deficit, which has fallen by almost three-quarters, is forecast to decline even further in the next fiscal year. While our economic recovery is well established, we have more to do to build on this momentum and make sure every American who works hard has a chance to get ahead.

The international financial institutions — the International Monetary Fund (IMF) and multilateral development banks (MDBs), including related multilateral trust funds — are a critical part of the President's efforts to bolster national security and drive long term prosperity. Our investments in these institutions promote our strategic interests and international stability. They help unlock the next generation of export markets for America's businesses and workers, while fostering private sector development and entrepreneurship.

That is why our request in the FY 2016 President's Budget for the Treasury Department's International Programs is so important. These investments are some of the most cost-effective ways to reinforce economic growth at home and respond to critical challenges abroad, like financial instability, poverty, environmental degradation, and food insecurity.

The IMF Quota Reforms and U.S. Influence

Critically, we are seeking Congressional approval of the IMF quota and governance reforms.

A well-resourced and effective IMF is indispensable to achieving our economic and national security interests, protecting the health of the U.S. economy, and enhancing the prosperity of America's workers. 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. The proposed reforms will put the IMF's finances on more stable footing over the long-term, help

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modernize the IMF's governance structure, and preserve America's strong leadership role in shaping the institution.

The Administration has included the required legislation in our budget request, and we are prepared to work with Congress to secure passage of these critical reforms as soon as possible. Specifically, the legislation increases the U.S. quota in the IMF and simultaneously reduces, by an equal amount, U.S. participation in the IMF's New Arrangements to Borrow (NAB). The legislation also includes an amendment to the IMF's Articles of Agreement that facilitates changes in the composition of the IMF Executive Board but preserves U.S. influence on the Board.

Our continued failure to approve the IMF quota and governance reforms is causing other countries, including some of our allies, to question our commitment to the IMF and other multilateral institutions that we worked to create and that advance important U.S. and global economic and security interests. Our international credibility and influence are being threatened.

As emerging economies have grown, they have gained greater voice in global economic policy. It is important that we recognize this enhanced role in multilateral institutions such as the IMF and encourage their commitment even as we maintain our leadership and veto position.

Implementation of the 2010 reforms is critical to reinforcing the central position of the IMF, especially as others are establishing new and parallel financial institutions. The IMF reforms will help convince emerging economies to remain anchored in the multilateral system that the United States helped design and continues to lead.

The U.S. is constantly pushing to accomplish important policy objectives through the IMF – from supporting Ukraine's financing needs to providing debt relief for countries affected by Ebola. But, because Congress has not yet enacted reform legislation, our leadership in the IMF is being undermined. For instance, the IMF has sought to bolster its precautionary resources by securing bilateral borrowing agreements with China, Germany, Korea, and others.

To preserve our leadership role at the IMF, it is essential that these reforms be approved. The alternative will be a loss of U.S. influence and our ability to shape international norms and practices that ensure an open, resilient global economy. A more closed international financial system hurts U.S. workers and companies.

Let me be very clear: These reforms do not increase the current U.S. financial commitment to the IMF. Instead, they change the composition, but not the level, of our financial commitment. The U.S. quota increase will be matched by an equal and permanent reduction in U.S. financial participation in the NAB. We look forward to working with Congress on approaches to get legislation passed as soon as possible.

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

The IMF supports U.S. jobs, exports, and financial markets. When foreign economies are in crisis, they import less from U.S. businesses, they invest less in the United States, and they can damage our financial markets, hurting the value of 401Ks and other savings and retirement

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investments for Americans. U.S. exports accounted for roughly 13 percent of U.S. gross domestic product in 2014, and American export industries supported nearly 12 million jobs. IMF surveillance helps prevent crises and its role as first responder reduces the severity and duration of crises.

The IMF continues to play a role in the resolution of the euro area crisis, and is providing critical technical and financial support to countries in Eastern Europe, including Ukraine, which are undertaking reforms to build secure economic foundations and achieve prosperity for their relatively new democracies. Without IMF policy advice to European countries in crisis, the spillover effects from Europe's economic problems on the United States in terms of lost growth and lost jobs would have been far worse.

While the IMF was critical in helping Europe avoid an economic meltdown, the Europeans provided the lion's share of the financing and bore the brunt of the financial risk. Moreover, the IMF's investments in Europe are proving effective, as Ireland and Portugal have emerged from crisis and are making early repayments to the IMF. IMF support for Greece helped avoid contagion throughout Eurozone and the global economy, which would have harmed the American economy. The IMF continues to engage closely with Greece as it continues to strive to reform its economy to ensure lasting stability and long-term growth.

The IMF also supports nations in the Middle East and Africa that are threatened by extremism and undergoing challenging political transitions. IMF programs in Jordan, Tunisia, and Morocco in the last few years have helped transition countries prevent economic crises which could erode the political environment to the detriment of U.S. interests.

As a clear example of the IMF's role in promoting American security and economic interests, the IMF is providing Ukraine with critical financial and technical support to restore macroeconomic stability, strengthen economic governance and transparency, and lay the foundation for robust and balanced economic growth. The IMF is the cornerstone of a broader international effort to support Ukraine amid extraordinary circumstances, and recently approved an augmented, longer program that allows for a more comprehensive and sustained set of economic reforms. No other entity could provide this level of financing and essential policy advice to enable Ukraine to make a decisive break from the past and unleash its economic potential.

Economic development is also critical for political stability. The IMF works alongside other development institutions in fragile states to combat economic stagnation and instability. With strong U.S. diplomatic support and without costs to the U.S., the IMF has significantly increased its support for low-income countries, including through interest rate relief on its concessional loans and helping protect health and education spending. U.S. leadership in 2014 was crucial in the IMF's extension of interest rate relief for low income countries for two more years.

The IMF is also helping to combat the Ebola outbreak. In late 2014, we called on the IMF to provide partial debt relief to the three African nations hardest hit by the Ebola epidemic. In response, the IMF committed to use internal resources that do not involve costs to the U.S. to provide new concessional loans, grants, and debt relief to these countries.

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Safety of Our Participation in the IMF

The assets that the United States places with the IMF are part of the U.S. international reserves and account for less than 20 percent of the IMF's total quota and NAB resources. U.S. transactions with the IMF are exchanges of equivalent monetary assets, which do not result in net budgetary outlays. When the United States provides resources to the IMF, the United States simultaneously receives an equal, offsetting claim in the form of an increase in the U.S. reserve position in the IMF. The U.S. reserve position in the IMF is an interest-bearing and liquid asset, held as part of U.S. international reserves and available to the United States on demand.

The IMF is a safe and smart investment for the United States. Every dollar of our participation leverages four more from other member countries. The IMF has a rock solid balance sheet, including reserves and gold holdings that exceed total IMF credit outstanding. In addition, the IMF is recognized by its entire membership as the preferred creditor, with the unique ability to set conditions to assure repayment. The IMF has never defaulted on any U.S. reserve claims on the IMF since its inception 70 years ago.

Multilateral Development Banks (MDBs) Promote National Security, Economic Growth, and Poverty Reduction

Our investments in the MDBs, including the World Bank and the regional development banks, promote national security, economic growth, and poverty reduction. The MDBs finance investments in developing and emerging economies, including in infrastructure, health, education, governance, and business climate reform. This support fosters private sector development, and opens new markets for U.S. exports, boosting American jobs.

In addition to meeting our current MDB commitments, it is urgent that we address prior unmet commitments, which have grown to levels that raise significant questions about U.S. credibility and leadership in the multilateral system. Failure to meet our commitments to the MDBs can result in a loss of U.S. shareholding, at a time when new players are challenging U.S. leadership in the multilateral system. This is also a time when we are asking the MDBs to do more to assist efforts in Ukraine, contribute to the Ebola response, finance projects for the President's Power Africa initiative, and address many of the causes and effects of migration in Central America.

The MDBs are vital partners in containing national security threats by providing emergency economic support and helping to alleviate poverty and spur broad-based, private sector-led economic growth. For example, since April 2014, the MDBs have increased their total combined annual commitments to Ukraine to nearly \$5 billion. This assistance has included emergency economic support, banking sector stabilization, improvements in energy security and efficiency, and support for social safety net reform. The World Bank and the Inter-American Development Bank have taken a leading role in helping El Salvador, Guatemala, and Honduras implement reforms to spur economic growth, which will help address the root causes of the flow of migrant children to our border.

The World Bank's International Development Association (IDA), African Development Fund, and Asian Development Fund all focus on fragile states, where nearly 1.5 billion poor people live, many in extreme deprivation. In these difficult environments, the MDBs have the resources and expertise needed to help improve the lives of millions of people and give them a stake in

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stability. The assistance that IDA and the African Development Fund have provided to Guinea, Liberia, and Sierra Leone to respond to the Ebola crisis is especially notable — providing more than \$700 million to the affected countries for emergency health response, economic stabilization, and strengthening health systems for the long term. Continued support from the MDBs will be a critical part of preventing and improving the response to future pandemics.

In addition, the MDBs complement and amplify 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 an additional 30,000 megawatts of power generation capacity to Africa and increase access to electricity for at least 60 million new households and businesses connections in sub-Saharan Africa. These institutions play indispensable roles, deploying their technical expertise to engage with governments to promote difficult, yet crucial, reforms necessary to encourage private sector investment in Africa's energy sector, and providing financing for electrification infrastructure projects. The World Bank will support Power Africa by committing \$5 billion in new technical and financial support, including loans and guarantees to support energy projects in the six initial Power Africa focus countries. This commitment builds on the World Bank's existing \$3.3 billion commitment in the six initial focus countries and its broader commitment to developing the energy sector in sub-Saharan Africa. The African Development Bank has also announced its support to advance Power Africa as an anchor partner, with an initial commitment of \$3 billion. In addition, Power Africa countries are also eligible to access resources from the World Bank-Administered Climate Investment Funds for utility-scale renewable energy projects.

As we continue to protect our economic recovery, increase exports, and create jobs at home, support for the MDBs remains as critical as ever. The MDBs' assistance and technical know-how has nurtured the economic reforms, infrastructure, and social investments that have driven the growth of some of our largest trade partners, such as India, Brazil, and Turkey. This assistance and know-how is also important for laying the groundwork for the next generation of strong U.S. export markets, like Indonesia, Vietnam, and Colombia. These three emerging markets, which accounted for \$8 billion of U.S. goods exports in 2000, account for \$31 billion today — a four-fold increase. Our continued support for the MDBs signals our commitment to supporting significant economic growth like this in emerging and developing countries through the multilateral system.

MDB assistance and technical know-how also play an important role in making economic growth in emerging and developing countries more sustainable, inclusive, and transparent. For example, all of the MDBs have policies in place that are designed to avoid and mitigate the potential negative environmental and social impacts of their lending. These safeguards apply directly to MDB assistance, but may also positively influence the environmental and social policies of borrowing governments. This standard-setting role allows the MDBs to have impacts well beyond the scope of their direct lending.

For this reason, we are focused on the World Bank's ongoing safeguards review. This review will result in revised policies that will govern World Bank lending for years to come. We are working closely with World Bank management, other shareholders, and civil society to secure revised safeguards that will strengthen the protection provided by these policies, improve their

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implementation, and influence the domestic policies of borrowing governments. The stakes of this review are particularly high at a time when new institutions are emerging that may have weaker commitments to social and environmental standards, when the World Bank is increasing its lending in high-risk sectors such as infrastructure, and when the World Bank itself has admitted weaknesses in the implementation of its existing policies in areas such as involuntary resettlement.

Furthermore, the ultimate success of the MDBs' activities depends on designing programs around a strong base of evidence about what works and what does not. The MDBs must also be willing to make mid-course corrections when projects need improvements to be effective. Treasury is pressing the MDBs to do more to build this required culture of learning and accountability. This includes an increased emphasis on building the capacities of each MDB's independent evaluation unit; conducting more in-depth evaluations, especially for high-risk projects; and holding staff accountable for incorporating evaluation findings into project design.

The MDBs also help foster a more level playing field for firms competing for MDB business opportunities by requiring the use of fair and transparent procurement rules. We are engaging closely on reviews of the World Bank's and African Development Bank's procurement policies to promote changes that level the playing field for U.S. workers and businesses even further.

Finally, I would like to highlight a new five-year commitment to one MDB that promotes our economic and security goals closer to home — the North American Development Bank (NADBank), which finances projects on *both* sides of the U.S.-Mexico border. The NADBank has become an important financier of environmental infrastructure, renewable energy, and municipal services, such as wastewater treatment and waste management, helping create jobs in the border region. We are seeking to bolster the NADBank's financial resources so that it can expand on this important work.

Addressing Complex Global Challenges

When it comes to global challenges such as the environment, food insecurity, and gender imbalances, the world continues to rely on multilateral institutions and strong U.S. leadership within them to help developing countries make concrete investments to meet these challenges. U.S. support for specialized multilateral funds leverages resources from other donor countries and the private sector, multiplying the impact of American taxpayer dollars. For example, as of June 2014, the Clean Technology Fund (CTF) investments have resulted in 2.3 gigawatts of renewable energy being brought into service, with an additional 15.5 gigawatts of capacity under construction.

In addition to deploying clean energy, the environmental trust funds reach poor people in urban slums, rural villages, and small cities around the world. These funds — in particular, the Global Environment Facility (GEF) — enable vulnerable communities to battle a wide range of threats, from extreme weather events that affect food production to wildlife trafficking and toxic chemicals. The GEF also helps countries to safely dispose of dangerous chemicals that can damage human health and contaminate global food supplies.

We are also requesting funding for Treasury's portion of the U.S. pledge to the new Green Climate Fund (GCF). The GCF is designed to be a key element of the global, collective efforts

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to build resilience and reduce carbon pollution. The GCF will make a significant difference by enabling developing countries to invest in those goals and transition to a more sustainable development path. The GCF also fosters trust and goodwill, so that developing countries increase their ambition for sustainability and mitigation commitments in their national planning. The GCF builds on the Bush Administration's \$2 billion pledge to the Climate Investment Funds and has a strong focus on mobilizing private sector resources. We are committed to working with Congress on this request, which is a high priority for the Administration.

The United States has been a leader in the fight against global hunger and poverty through the President's Feed the Future initiative. The Global Agriculture and Food Security Program (GAFSP) and the International Fund for Agricultural Development (IFAD) are key multilateral components of food security. While similar in their goals, GAFSP focuses on helping smallholder farmers in some of the world's poorest countries to improve their agricultural productivity and markets and earn higher incomes, whereas IFAD is implementing programs in a broad range of developing countries. Both GAFSP and IFAD aim to increase rural economic growth and employment in some of the world's poorest, most fragile countries. And, similar to the country selection process used by our own Millennium Challenge Corporation, GAFSP selects projects using a competitive process that incentivizes results.

Conclusion

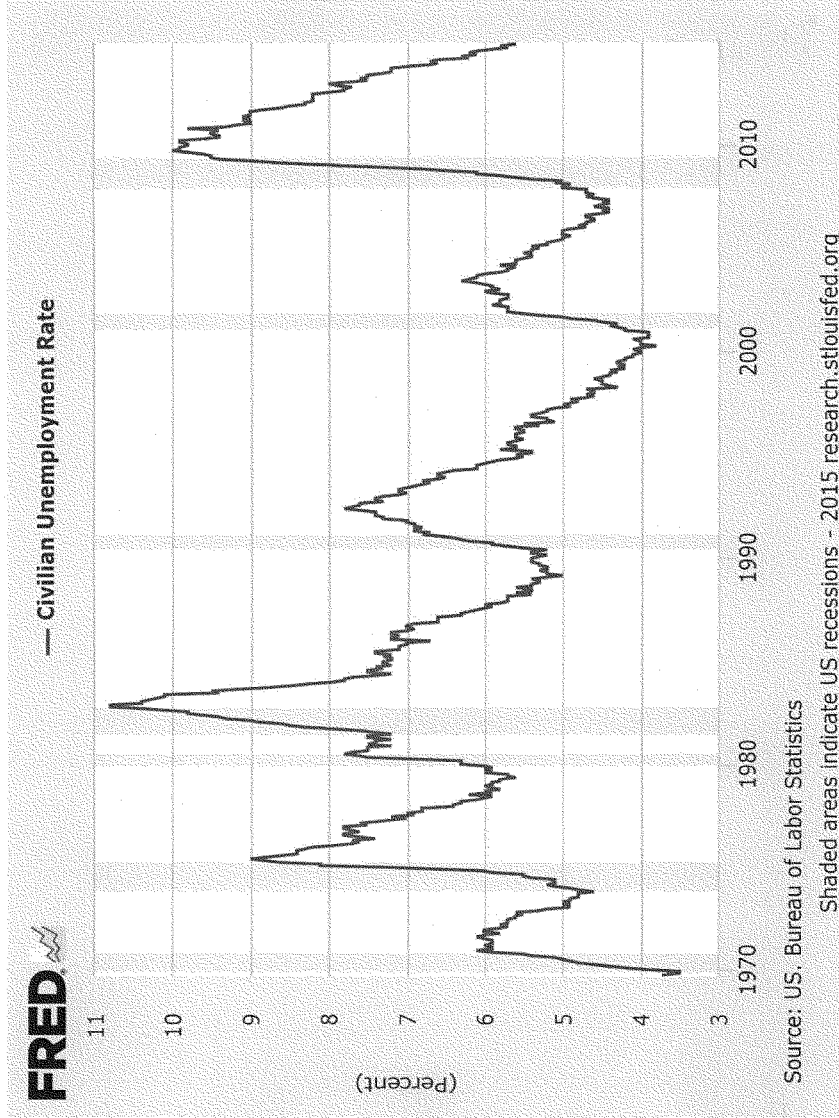
U.S. leadership in international financial institutions enables us to influence how and where resources are deployed — often on a scale that we cannot achieve through our bilateral programs alone. However, bipartisan support is required to ensure that influence remains as strong today as it has been over the past several decades.

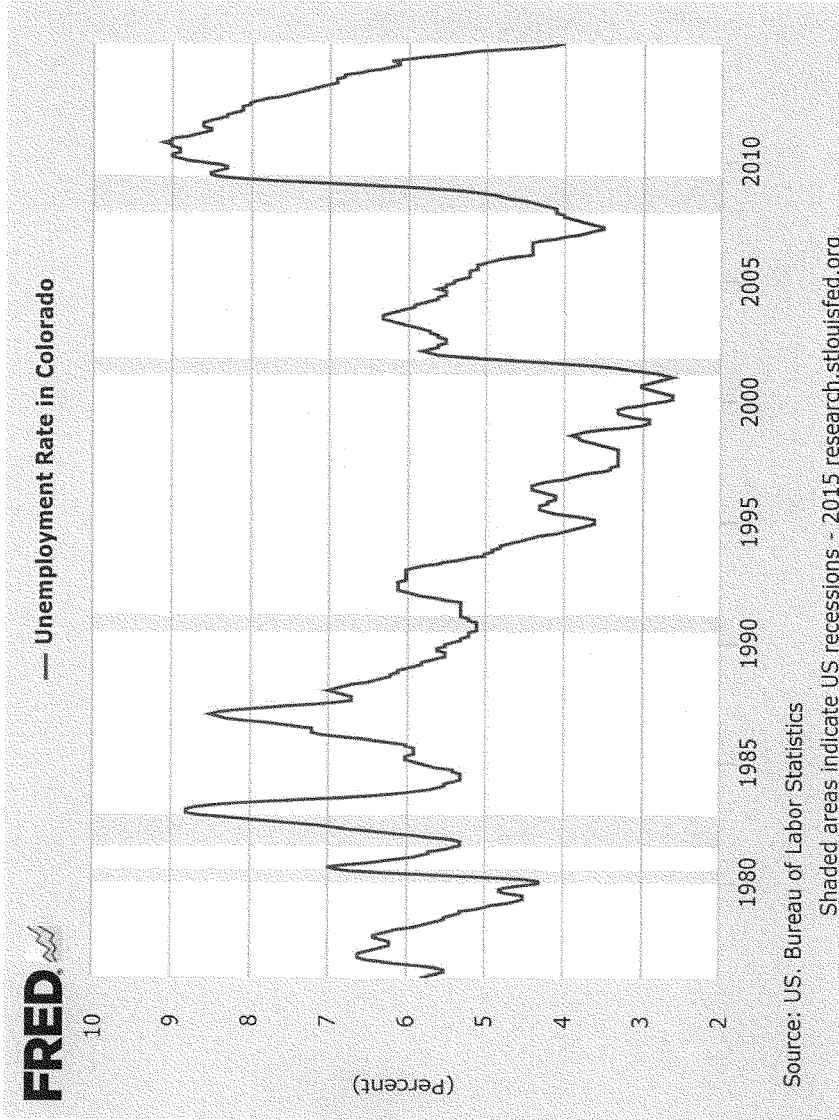
It is important that Congress acts to approve IMF quota and governance reform so that we can continue to safeguard our leadership in these essential institutions. Approving these reforms puts us in a stronger position to influence IMF decision-making on a host of issues critical to our economic and national security. 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. Unfortunately, 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.

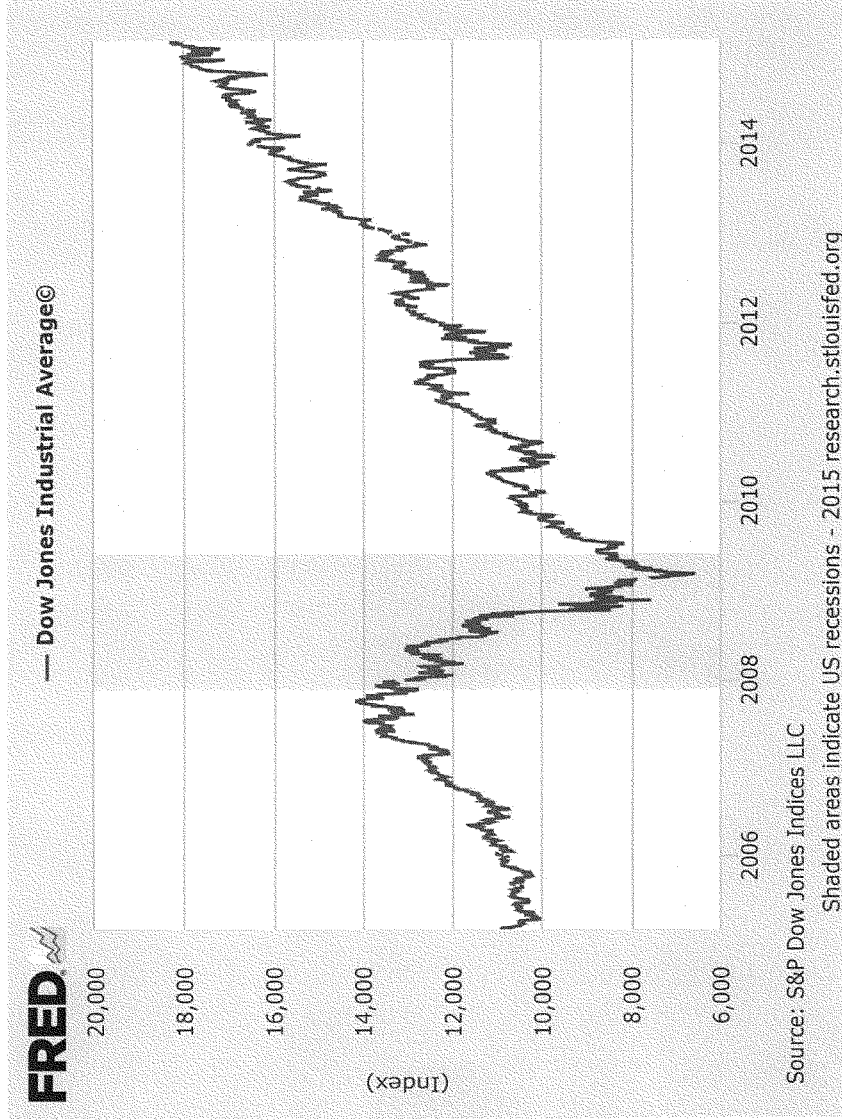
Similarly, meeting our commitments to the MDBs is a cornerstone of U.S. credibility and leadership. The partnership we have with the MDBs has endured across parties because these institutions have continually provided a significant return for the United States. They allow us to promote national security, economic growth, and poverty reduction. No other institutions so effectively leverage our limited resources in service of our national and global interests.

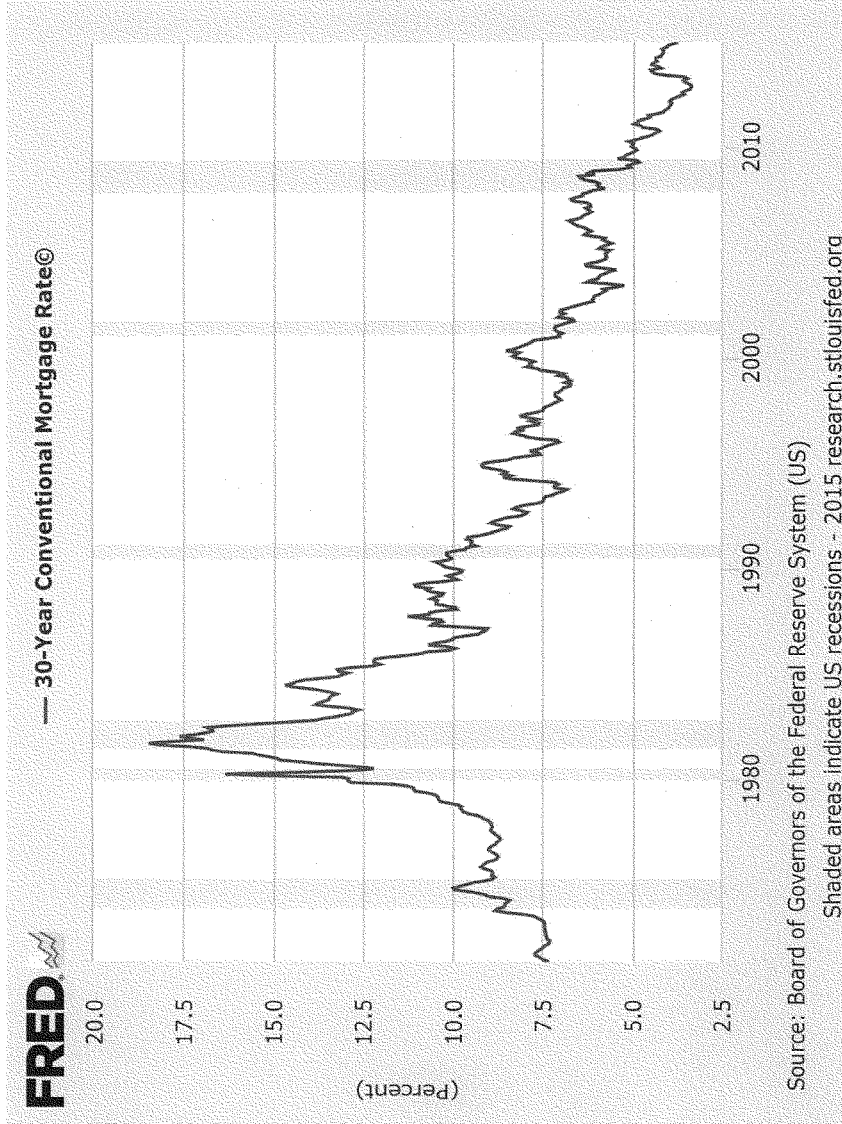
I look forward to working with you on these critical issues and welcome your questions.

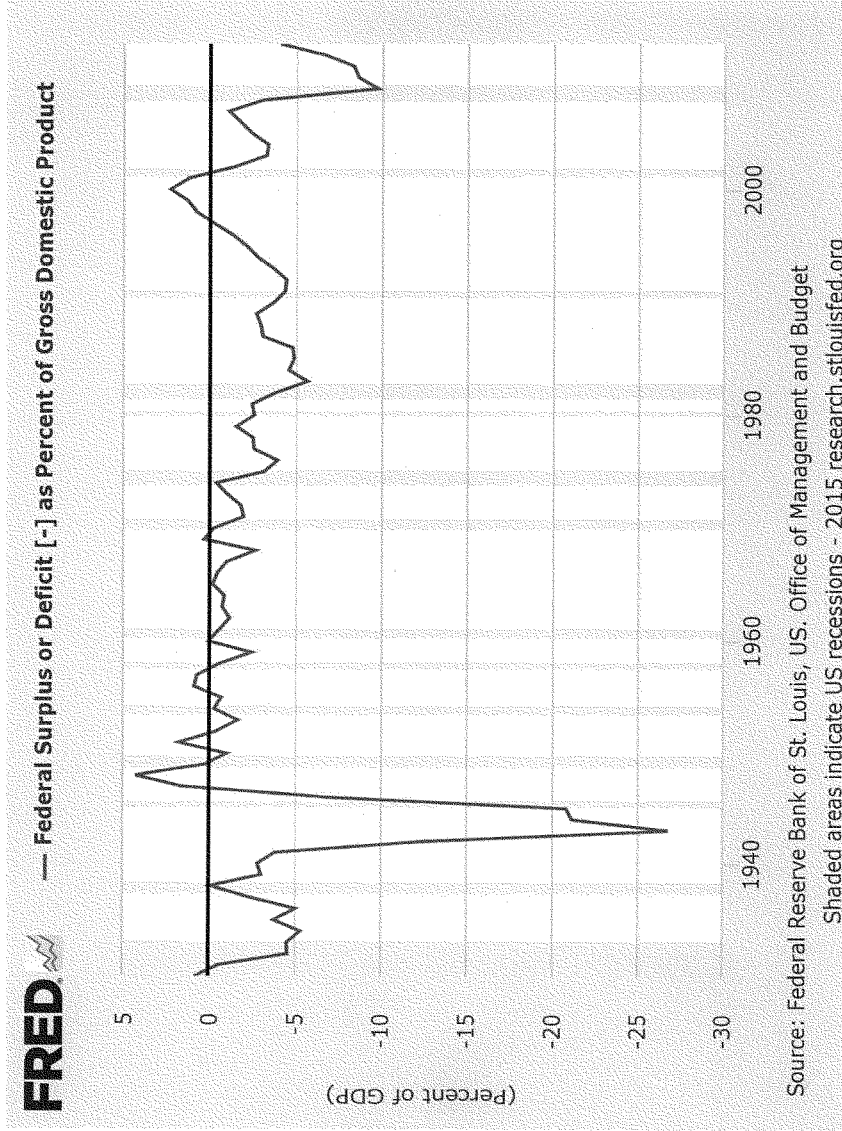
Thank you.





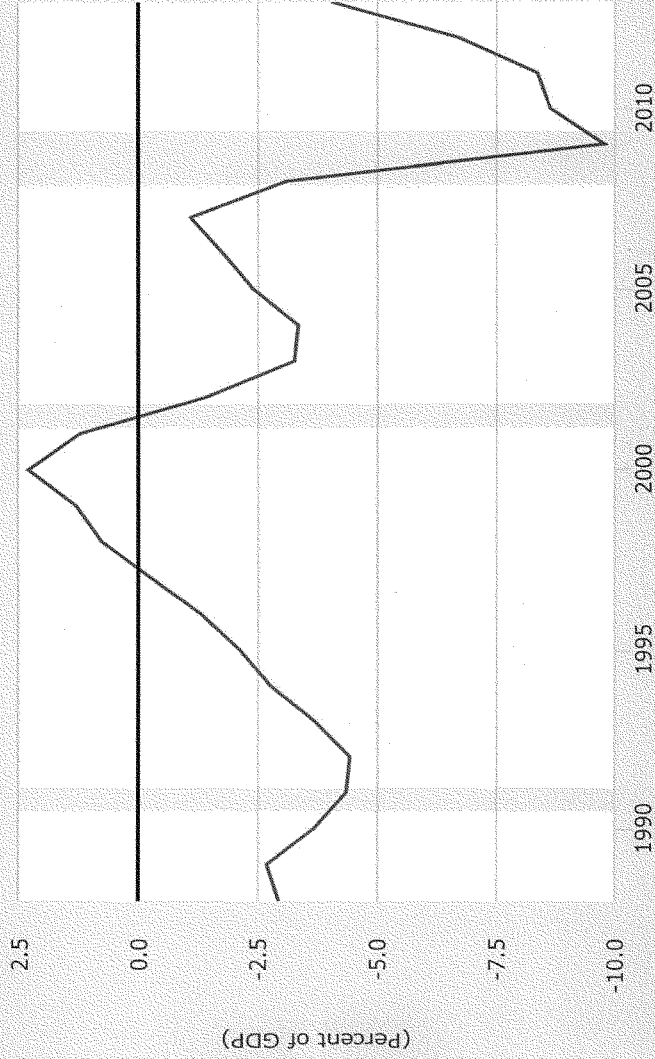






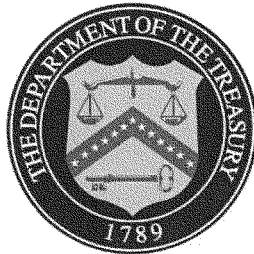


— Federal Surplus or Deficit [-] as Percent of Gross Domestic Product



Source: Federal Reserve Bank of St. Louis, US. Office of Management and Budget
Shaded areas indicate US recessions - 2015 research.stlouisfed.org

**REPORT TO CONGRESS FROM THE
CHAIRMAN OF THE NATIONAL ADVISORY COUNCIL
ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES**



A Report to Congress

consistent with

Section 1701 of the
International Financial Institutions Act,
as amended by the Omnibus Appropriations Act, 1999

United States Department of the Treasury
2015

EXECUTIVE SUMMARY

This report discusses the participation of the United States in the International Financial Institutions (IFIs) during 2014 and U.S. priorities for the IFIs in 2015. The International Monetary Fund (IMF) and the multilateral development banks (MDBs), including the World Bank and the major regional development banks, continue to play an essential and effective role in the international financial system. The IFIs are vital partners for the United States in furthering U.S. and global security interests, supporting U.S. and global economic growth and jobs, and maintaining open markets and financial stability.

Our ability to advocate effectively for these priorities depends on our ability to meet our financial commitments to the IFIs in a timely fashion, including through passage of the 2010 IMF quota and governance reforms, and having confirmed U.S. Executive Directors in place at these institutions to engage with IFI management and Executive Directors from other member countries.

The IFIs helped advance many U.S. priorities in 2014. The IMF renewed precautionary credit lines for Mexico and Poland and approved new lending agreements for several countries, including Ukraine, Georgia, Honduras, Morocco, and Yemen. The IMF also provided \$130 million in emergency assistance and agreed to debt relief for the Ebola-affected countries. The MDBs approved more than \$105 billion in new financing for developing countries. This financing supports critical areas, such as bolstering Ukraine's economy, responding to the Ebola crisis, improving citizen security in Central America, and expanding access to cleaner, more reliable electricity in Africa, Asia, and Latin America. The United States will look to the IFIs to ensure sustained financial support for these priorities in 2015.

The United States also encouraged the IFIs to undertake a broad range of institutional reforms that will further improve their effectiveness in supporting U.S. priorities. The United States was took the lead in proposing governance reforms at the IMF that are awaiting Congressional approval. We have pushed the IMF to maintain a flat budget in real terms improving cost effectiveness. Further, through our efforts the IMF has made significant strides in transparency and last year the Executive Board approved a reduction in release time for detailed minutes of most board meetings from five to three years. The MDBs implemented a range of measures to expand their financial capacity, continue updating their environmental and social safeguards and strengthen accountability, improve how they measure and evaluate results, and provide more effective support for gender, fragile states, and the private sector. Many of these reforms represent a fulfillment of commitments that the MDBs made to the United States and other shareholders during negotiations for concessional window replenishments and general capital increases.

In 2015, we will be urging the IFIs to continue taking steps to improve their ability to deliver effective outcomes and support U.S. goals. Our key priorities at the IMF include continuing support for low-income countries; improving foreign exchange and financial sector surveillance; promoting strong, sustainable, and balanced growth; enhancing transparency and accountability in economic data; and, maintaining budget discipline. At the MDBs, our priorities include strengthening the framework and implementation of the World Bank's environmental and social

safeguards, with special attention on oversight of and compensation for involuntary resettlement; updating procurement policies to create a more level playing field for U.S. businesses and workers; implementing major institutional reorganizations to improve development effectiveness and expand financial capacity; and strengthening independent evaluation.

INTRODUCTION¹

The international financial institutions (IFIs) play an essential role in the international financial system, further U.S. and global security interests, support U.S. and global economic growth and jobs, and help maintain open markets and financial stability. The IFIs fight poverty, address environmental challenges, help enhance food security, and respond to emerging crises and emergency situations. U.S. leadership was instrumental in founding and designing many of these institutions, and the United States continues to use its influence to shape IFI policies and activities today. It is critical to retain America's strong leadership position in these vital institutions, which advance our national security, our economic interests, and our values.

For almost 70 years, the International Monetary Fund (IMF) has served the global community and promoted U.S. national security and economic interests with strong bipartisan support in the United States. The IMF helped Europe and Japan achieve sustained growth in the post-war period. After the demise of the Bretton Woods System, the IMF helped the United Kingdom and Italy overcome their financial crises in the 1970s, supported the resolution of the Latin American debt crisis of the 1980s, and supported economic transition in Eastern Europe and the former Soviet Union in the 1990s. The IMF was also central to the response to the Asian and emerging market financial crisis in the late 1990s and early 2000s.

The IMF remains the foremost international institution for promoting global financial stability. Since 2008, the IMF has been at the center of the global financial crisis response efforts, helping mitigate the impact of the crisis in its member countries and prevent contagion. Through its three main activities—surveillance, technical assistance, and lending—the IMF promotes economic stability and helps prevent and resolve financial crises when they occur, thereby promoting growth, enhancing U.S. national security, and alleviating poverty in its member countries. The IMF is providing critical support to U.S. allies and governments whose instability would jeopardize U.S. national security interests, including Jordan, Morocco, Tunisia, and Yemen in recent years. It is continuing to play a role in the resolution of the crisis in the euro area, and providing financial support to countries in Eastern Europe, including Ukraine, that are working to secure long-term stability and prosperity for their relatively new democracies. The IMF is assisting low-income countries with needed policy advice and financing, actively encouraging transparency and accountability in all of its member countries, and working with the G-20 on policies to foster strong, sustainable, and balanced global growth. The IMF recently provided emergency financial support and debt relief to Guinea, Liberia, and Sierra Leone to help counter the economic impact of the Ebola epidemic. As the world's first responder to financial crises, the IMF continues to play an indispensable role in protecting the U.S. economy

¹ Section 1701 of the International Financial Institutions Act, as amended by the Omnibus Appropriations Act, 1999 (P.L. 105-277, Div. A §101(d) [Title V, §583]), requires the Chairman of the National Advisory Council on International Monetary and Financial Policies (the Secretary of the Treasury, as designated pursuant to Executive Order 11269 of February 14, 1966, as amended) to report annually to Congress on the participation of the United States in the international financial institutions (IFIs).

– and the prosperity of American workers, households, and businesses – from the destabilizing effects of crises abroad.

In 2010, G-20 Leaders and the IMF membership decided on a set of quota and governance reforms designed to strengthen the IMF’s critical role and effectiveness. The 2010 reforms modernize IMF governance to better reflect countries’ economic weights in the global economy and keep emerging economies anchored in the multilateral system that the United States helped design and continues to lead. The reforms preserve U.S. veto power and influence in the IMF, without increasing the current U.S. financial commitment to the IMF. The rest of the world has acted to ratify the 2010 IMF reforms, and only U.S. acceptance is necessary for these important reforms to enter into effect.

As the United States has delayed approving the 2010 reforms, other countries have sought to increase their influence in the institution bilaterally, outside of the IMF’s quota-based financial and governance structures in which the United States exercises its leadership role. In 2012, due to the U.S. delay, the IMF secured bilateral borrowing agreements with countries such as China (\$43 billion), Korea (\$15 billion), India (\$10 billion), Mexico (\$10 billion), and Russia (\$10 billion). Emerging economies are proposing new and parallel financial institutions such as the New Development Bank (the “BRICS Bank”) and the Asian Infrastructure Investment Bank. Congressional approval of the 2010 reforms is necessary to reaffirm the U.S. leadership position and reinforce the IMF’s central position in the global financial system.

Alongside the IMF, the multilateral development banks (MDBs), which include the World Bank and the major regional development banks, are essential instruments to promote U.S. national security, support broad-based and sustainable economic growth and job creation, and address key global challenges like environmental degradation, while fostering private sector development and entrepreneurship. MDB concessional lending windows are an important source of financing for the development needs of fragile and post-conflict states and for combating extreme poverty and hunger. MDB projects promote global stability, prosperity, infrastructure development, and private sector growth.

MDB investments in developing and emerging economies – in infrastructure, health, and education – foster private sector development in these countries, which creates new markets for U.S. exports and jobs for American workers. The MDBs, often alongside the IMF and as complements to U.S. bilateral assistance, have been key partners on important priorities such as responding to the Ebola outbreak, bolstering Ukraine’s economy against the effects of conflict, increasing citizen security in Central America, and expanding infrastructure in Asia, Africa, and Latin America.

This report covers the period from January 2014 to January 2015 and looks at prospects for the remainder of 2015. It also includes the Report to Congress on the International Development Association’s Contributions to Graduation, consistent with 22 U.S.C. § 262r-6(b)(2).

INTERNATIONAL MONETARY FUND (IMF)

Major Issues Affecting U.S. Participation in the IMF

Background: The United States participates in the IMF through a quota subscription. Quotas are the metric used by the IMF to assign voting rights, to determine contributions to the IMF's general resources, and to determine access to IMF financing. The IMF's recent efforts to modernize its governance started during the Bush Administration. In 2006, the IMF membership approved an ad hoc quota increase for the most underrepresented emerging market countries (China, Korea, Mexico, and Turkey). In April 2008, IMF members reached agreement on a broader quota reform package as a further step to modernize the IMF's governance structure to keep pace with the rapid growth and greater economic weight of dynamic emerging market countries in the global economy. This agreement included a small increase in the U.S. quota to maintain our share and veto power as other members' quotas were increased. On June 24, 2009, the Supplemental Appropriations Act, 2009 (Public Law 111-32), was enacted, providing authorization and appropriations for an increase in the U.S. quota in the IMF by the dollar equivalent of 4.97 billion Special Drawing Rights (SDRs) (about \$7.71 billion as of June 24, 2009), as well as an increase in the U.S. participation in the New Arrangements to Borrow (NAB; discussed below).

At the Pittsburgh Summit in September 2009, G-20 Leaders agreed to further reform IMF quotas. At the summit in Seoul in fall 2010, G-20 Leaders agreed on a package that secured significant reform of the IMF's governance structure and voting rights. This agreement better reflects today's global economy, thereby enhancing the IMF's legitimacy and effectiveness. In particular, the reform will double total IMF quotas, with a corresponding rollback of the NAB; amend the IMF's Articles of Agreement to move to an all elected Executive Board;² shift more than 6 percent of quota shares to dynamic and underrepresented emerging market and developing countries; and preserve the quota and voting shares of the poorest member countries.

2010 Quota and Governance Reforms: In the 2010 IMF reform agreement, the United States successfully achieved its negotiating priorities: (1) an increase in the U.S. quota alongside an equivalent reduction in U.S. financial participation in the NAB, for no change in the overall U.S. financial commitment to the IMF; and (2) the preservation of the U.S. leadership position and veto power over major institutional and financial decisions.

U.S. leadership in the IMF promotes American core interests in three ways; first, the IMF strengthens our national security; second, the IMF protects the U.S. economy by serving as a first responder when financial crises abroad threaten jobs and growth at home; and third, the IMF helps design and promote rules for an open global trade and financial system. The IMF is an important partner in strengthening our national security. For example, by helping to anchor economic stability in the Middle East—in Jordan, Morocco, and Tunisia. As the world's first responder to financial crises, the IMF helps our trading partners stabilize and heal their economies. By preventing crises in other countries from spreading to the United States, the IMF protects U.S. jobs, exports, and household savings. In Ukraine, the IMF is playing a key role in supporting a financial stability and reform program that was expected to be extended and increased on March 11, in a clear example of the importance of the IMF in promoting American core interests. No other entity could provide the IMF's level of financing along with essential

² Under an all-elected Board, the U.S. would retain its current seat.

policy advice. The IMF program is also a catalyst for unlocking additional bilateral and multilateral support for Ukraine as it undertakes important reforms to strengthen its economy.

The United States is the largest shareholder in the IMF and the only country that has the ability to veto major institutional decisions. Maintaining the unique U.S. leadership position is more important than ever. The reforms will advance U.S. interests by strengthening the IMF's central role in the international financial system and preserving U.S. leadership in the IMF so that we can continue to shape the norms and practices that ensure an open, resilient global economy. The vast majority of the IMF membership has now acted, and U.S. approval is the only remaining step for these important reforms to go into effect.³ The failure of the United States to approve these reforms led the G-20 and the IMF's International Monetary and Financial Committee to ask the IMF to consider options for moving forward on quota and governance reforms without an increase in the U.S. quota. In January 2015, the IMF Executive Board informally discussed possible next steps. The G-20 will discuss these options at its meeting in April 2015. That is why we have asked Congress to safeguard U.S. leadership in the IMF by acting expeditiously to approve the 2010 quota and governance reforms. **The reforms do not increase the current overall level of U.S. financial participation in the IMF.**

New Arrangements to Borrow (NAB): In addition to quota subscriptions, the IMF maintains standing borrowing arrangements with 38 financially strong members, including the United States. The NAB was designed as a pool of emergency resources for use when the IMF's ordinary quota resources are substantially drawn down in the rare circumstances that threaten the stability of the international monetary system, such as those seen during the 2009 global financial crisis. As a result of Congress' failure to approve the 2010 quota and governance reforms, the IMF has become reliant on the NAB for its lending programs. Currently, for every \$4 in IMF loans, \$3 comes from the NAB and only \$1 from quota resources. Moreover, unlike quota resources the IMF does not have automatic access to NAB resources. The availability of NAB resources requires "activation" by an 85 percent vote of the shares of NAB participants every six months. This requirement gives the BRICs (Brazil, Russia, India, and China) control over the NAB's resources as the BRIC countries hold more than 15 percent of the NAB's voting power, which is enough to block NAB activation.

The U.S. commitment under the NAB is currently SDR 69 billion (about \$97 billion), which includes U.S. participation in the General Arrangements to Borrow.⁴ When the 2010 quota reform enters into effect, U.S. participation in the NAB will be reduced by SDR 40.8 billion (about \$58 billion), the same amount as the U.S. quota increase.

Promoting International Financial Stability

³ Before the quota increase can take effect, the amendments on reform of the Executive Board must be approved by three-fifths of the IMF's 188 members (or 113 members) having 85 percent of the IMF's total voting power. As of January 27, 2015, 146 members having 77.1 percent of total voting power had accepted the amendment, and 163 members having 79.6 percent of total quota had consented to the quota increase.

⁴ The General Arrangements to Borrow is a standing borrowing arrangement that preceded the NAB and totals about \$26 billion, of which the U.S. share is about 25 percent.

The IMF plays a vital role in safeguarding the international financial system and promoting financial stability. It also promotes the key U.S. goal of strong, stable global growth through effective surveillance of the international monetary and financial system as well as individual country economies. As the world's first responder to financial crises, the IMF works to help protect the U.S. recovery and promote increased global growth and stability, which supports U.S. jobs and exports, foreign investment in the United States, our financial markets and our economic health.

Effective Crisis Response: The IMF plays a central role in international efforts to resolve and prevent the spread of global economic and financial crises by providing its members with timely policy advice and financing if needed to address balance of payments problems. New IMF lending commitments totaled approximately \$67 billion from May 2014 to January 2015, of which \$63 billion was for a renewal of multi-year precautionary Flexible Credit Lines (FCL) to provide a buffer against external risks for Mexico and Poland. Since April 2014, new IMF lending arrangements have been agreed in seven additional countries: Georgia, Honduras, Seychelles, Morocco, Chad, Grenada, and Yemen.

While the IMF was critical in helping Europe to avoid an economic meltdown, the Europeans provided the lion's share of the financing and bore the brunt of the financial risk. Moreover, the IMF's investments in Europe are proving effective, as Ireland and Portugal have emerged from crisis and are making early repayments to the IMF. The IMF continues to engage positively with Greece as it continues to strive to reform its economy to ensure lasting stability and long-term growth.

The IMF's crisis-response in the Middle East and North Africa (MENA) region has been crucial to encouraging macroeconomic stability in a number of countries that are significant to our national security. A stable and more prosperous MENA region helps promote peace and facilitates more orderly democratic transitions, and thereby opens up opportunities for American businesses in the region's emerging economies. The IMF is closely engaged in the region through analytical and technical advice, as well as through substantial financial support. For instance, in July 2014, the IMF extended a successor \$5 billion precautionary credit line to Morocco to support its economic reform program and provide insurance against external shocks.

U.S. Policy Goals and the IMF

The IMF serves as a critical forum for multilateral consultation and cooperation on international monetary and financial policy issues, as well as for promoting global economic and financial stability. The sections below discuss the IMF's functions in supporting low-income countries; working with the G-20 to promote strong, sustainable, and balanced growth; enhancing transparency and accountability in economic data; maintaining budget discipline; and, improving foreign exchange and financial sector surveillance.

Support for Low-Income Countries: The IMF plays a key role in assisting low-income countries (LICs) to achieve macroeconomic stability, a necessary condition for poverty reduction and higher long-term growth. In calendar year 2014, the IMF Board approved three lending arrangements for low-income country members under the Poverty Reduction and Growth Trust (PRGT) facilities (Chad, Grenada, and Yemen). In September 2014, the IMF provided a total of

\$130 million of emergency financial assistance in the form of highly concessional loans to Guinea (\$41 million), Liberia (\$48 million), and Sierra Leone (\$40 million) through its Rapid Credit Facilities and augmentations to the program countries with Extended Credit Facilities. These funds have helped counteract the revenue shortfall and unplanned Ebola containment spending that all three countries have faced as a result of the epidemic. In response to a U.S. leadership request, the IMF has provided debt relief to these three Ebola-stricken countries by reforming its Post Catastrophe Debt Relief (put in place after the Haitian earthquake) to enhance Fund support for low-income countries hit by public health disasters. The IMF will provide approximately \$95 million in debt service relief (\$30 million to Guinea, \$36 million to Liberia, and \$29 million to Sierra Leone). The amounts will free the three countries from debt service obligations to the IMF falling due over the next two to four years.

The United States has been a strong advocate for enhancing the IMF's support for LICs. Since 2009, the IMF Board has taken steps to boost the PRGT's concessional subsidy resources for lending to LICs. With strong U.S. leadership, in 2009, the IMF Board agreed to extend interest rate relief (zero interest) on all PRGT loans through the end of 2012. U.S. leadership has been instrumental in securing IMF Executive Board approval to extend the zero percent interest rate on PRGT loans through the end of 2016. These initiatives have helped put the PRGT on a more sustainable footing and safeguard the IMF's role in promoting macroeconomic stability, higher long-term growth, and poverty reduction in LICs.

Strong, Sustainable, and Balanced Growth: The IMF provides critical analytical support to the G-20 Framework for Strong, Sustainable, and Balanced Growth, where the overarching goal is to put the global economy on a robust growth path. In addition to providing regular surveillance reports on current and future economic prospects, the IMF also provides assessments of individual members' progress in implementing past policy commitments, with special focus on exchange rate, fiscal, and structural reform commitments. A key contribution of the IMF to the G-20 cooperative policy process is its annual assessment of the collective consistency of G-20 members' policies and the ability of those policies to achieve the goals of strong, sustainable, and balanced global growth. It will also play a critical role in monitoring progress towards achieving the G-20 collective aspiration of boosting global growth through implementation of country growth strategies.

Transparency/Accountability: The IMF promotes transparency through its strong data standards. Effective bilateral and multilateral IMF surveillance requires provision of timely, full, and accurate data. Transparency is necessary to assess the IMF's effectiveness in contributing to global monetary and financial stability and in building broader economic knowledge. The IMF's collection and publication of comparable data – including on exchange rates and reserves – remains a top U.S. priority. The IMF has begun collecting and disseminating comparable cross-country data in new areas, such as the Financial Soundness Indicators, but more progress is needed.⁵ The IMF is conducting a review of its Data Standards Initiatives, which will focus on increasing the number of member countries participating. In November 2014, China announced its intention to subscribe to the IMF's Special Data Dissemination Standard (SDDS), which will help provide better information across a number of data categories, including China's reserve holdings.

⁵ See <http://fsi.imf.org>.

In February 2015, the United States became one of the first countries to adhere to the IMF's SDDS Plus, enhancing the transparency of our economic data. We will urge other countries to join us in subscribing.

Budget Discipline: The IMF has maintained a relatively tight budgetary framework, and is working toward making more efficient use of existing resources. The IMF's medium-term budget framework includes a nominal 1.9 percent increase in FY 2015⁶, with no increase in the annual budget in real terms in 2016 and 2017. The United States continues to be a strong advocate of IMF budgetary stringency, and supports the IMF's strategy of offsetting expenditures for new activities with a reduction in spending in other areas.

Effective Surveillance: Surveillance of members' exchange rates is at the core of the IMF's mandate. For the IMF to fulfill its central role in the international monetary system, it must continue to strengthen its efforts to exercise firm surveillance over IMF members' exchange rate policies, and it must be prepared to make tough judgments, especially when evaluating large countries that have systemic implications. Without firm surveillance, the global imbalances that contributed to the global financial crisis could go unaddressed and pose a threat to future global economic stability. Going forward, the United States will continue to advocate for increased candor, transparency, and evenhandedness in IMF exchange rate surveillance. In the IMF Executive Board, the U.S. Executive Director will also continue to urge the IMF to address instances of excessively delayed Article IV reviews (as these reviews are the primary vehicle for bilateral surveillance).

The IMF continues to refine and expand its guidance on international reserves issues. In December 2015, the IMF Executive Board discussed proposed guidelines for its new reserves adequacy metric, which measures the level of foreign exchange reserves needed for precautionary purposes.

In September 2014, the IMF completed the 2014 Triennial Surveillance Review (TSR), designed to strengthen the effectiveness and traction of IMF surveillance. The 2014 TSR built upon the recommendations of the 2011 TSR recommendations, which included regularly analyzing spillovers and cross-country issues, conducting in-depth risk assessments in bilateral and multilateral surveillance products, improving financial sector surveillance, and publishing assessments of external balances. It also examined evenhandedness and consistency in IMF policy advice.

The IMF works with other international organizations to promote stronger financial systems around the world. The joint IMF-World Bank Financial Sector Assessment Program (FSAP) has emerged as a critical instrument for financial sector surveillance and advice. The FSAP assessments are designed to gauge the stability of the financial sector and to assess its potential contribution to growth and development. Since the FSAP was launched in 1999, around 140 countries have completed the program (many more than once), and more than 25 assessments are currently under way or in the pipeline. In September 2010, it was agreed that financial stability assessments for jurisdictions with systemically important financial sectors, which include the

⁶ The IMF's fiscal year runs from May 1 through April 30. FY 2015 is from May 1, 2014 to April 30, 2015.

United States, should take place at least once every five years as a mandatory part of IMF surveillance. The IMF is expected to release its second FSAP review of the United States in July 2015.

MULTILATERAL DEVELOPMENT BANKS (MDBs)

This section addresses key U.S. policy goals that are advanced by the MDBs and details developments in institutional reforms, priorities, performance and effectiveness at the MDBs since the previous NAC Report was issued.

The United States works through the MDBs to: (i) foster U.S. national security by supporting engagement by the MDBs with fragile and conflict-affected states (e.g., Liberia and Ukraine) and providing assistance that can address the root causes of instability; (ii) promote U.S. economic growth through exports by helping the MDBs cultivate emerging markets; (iii) respond to global crises, such as the Ebola epidemic in Guinea, Liberia, and Sierra Leone, and build countries' resilience to future crises; and (iv) address critical global priorities, such as energy security, renewable energy, environmental degradation, and food security.

The U.S. contributions to the MDBs leverage significant additional contributions from other shareholders and the MDBs themselves, allowing for a level of assistance that is significantly higher than what the United States could achieve bilaterally. Meeting the U.S. commitments to the capital increases for the MDBs and replenishments of their concessional windows, including paying down our unmet commitments, is important for expanding the MDBs' financial capacity. This expanded financial capacity is critical, as we are pressing the MDBs to ramp up their already substantial support in a number of areas, including the Ebola response, assisting Ukraine's government, bolstering citizen security in Central America, and co-financing projects as part of the President's Power Africa initiative.

The United States is the largest or joint largest shareholder at all of the MDBs, except the African Development Bank, where we are the largest non-African shareholder, and our shareholding at the Asian Development Bank will permanently fall below Japan's unless we fully fund our commitments to the general capital increase. We are able to use this status to press MDB management for institutional reforms and for financial and political support for major U.S. priorities. Meeting our commitments to the MDBs is critical to preserve this shareholding and maintain our credibility and leadership at a time when new players are challenging U.S. leadership in the multilateral system.

There are several themes that we have prioritized across all of the MDBs over the past year. We have urged the MDBs to make more efficient use of their balance sheets to expand the level of resources available to developing countries, in accord with recommendations from leaders of the G-20. We have pressed the MDBs to update their policies and practices on evaluation to build a stronger culture of learning and accountability. We have encouraged stronger attention to environmental and social safeguards, with special attention on those related to the environmental and resettlement impacts of the construction of large dams. The MDBs are examining options for improving their governance structures, including how to reflect the growing weight of emerging markets in the global economy and more transparent selection processes for senior

management. In line with President Obama's Executive Order to incorporate climate resilience considerations into U.S. development assistance, we are working with the MDBs to mainstream climate resilience considerations in their activities and promote collection and sharing of climate resilience data.

Below we summarize the major developments and our upcoming priorities for each MDB.

World Bank

World Bank Performance in 2014: During the World Bank's fiscal year 2014 (FY 2014, covering July 2013 – June 2014), the World Bank committed \$61.3 billion in loans, technical assistance, concessional credits, grants, equity investments, and guarantees.

- *The International Bank for Reconstruction and Development (IBRD) approved \$18.6 billion in loans and technical assistance to middle-income countries.* Latin America and the Caribbean (25 percent) and Europe and Central Asia (25 percent) received the largest portion of the IBRD's new lending, followed by East Asia and Pacific (22 percent).
- *The International Development Association (IDA) committed \$22.2 billion in highly concessional credits and grants to the 77 poorest countries.* Nearly half of IDA's annual commitments (\$10.2 billion) went to countries in Sub-Saharan Africa, followed by South Asia (38 percent), and East Asia and Pacific (10 percent).
- *The International Finance Corporation (IFC), the private sector arm of the World Bank, approved \$17.3 billion in investments.* In FY 2014, IFC mobilized an additional \$5.1 billion from other investors for development projects. Roughly half of IFC projects went to the world's poorest countries.
- *The Multilateral Investment Guarantee Agency provided \$3.2 billion in guarantees for political risk insurance.* The FY 2014 level of guarantees represents a record high issuance. Fifty percent of MIGA's FY 2014 projects were in IDA-eligible countries, with 29 percent of new guarantees supporting fragile and conflict-affected countries.
- *For IBRD and IDA, public administration, law, and justice was the sector that received the largest commitment (22 percent), followed by transportation (17 percent), and energy and mining (16 percent).*
- The World Bank provided notable support in the following areas: providing \$2.0 billion to Ukraine for policy, health and infrastructure support; approval of nearly \$1 billion for Guinea, Liberia, and Sierra Leone for Ebola response; and establishment of the Global Infrastructure Facility to support infrastructure project preparation and catalyze private infrastructure investment with an initial contribution from the World Bank of \$15 million.

IDA Replenishment: In 2014, World Bank management began implementing the current replenishment of IDA resources (IDA-17), including the policy commitments that management

agreed to with IDA donors. IDA-17 was finalized in December 2013, allowing IDA to commit up to \$17 billion per year over the next three years. As part of the IDA-17 negotiations, the United States successfully pressured World Bank management to (i) “raise the bar” on gender equality, (ii) increase private sector development in IDA countries, (iii) target additional resources for fragile states that are on a path towards stability, and (iv) enhance IDA’s focus on climate resilience. We will continue to press World Bank management on the implementation of these IDA-17 policy commitments. We are also co-chairing a working group on IDA’s long-term vision and financial sustainability, which will make policy and financial recommendations to improve IDA’s future effectiveness based on projected economic and development trends in IDA countries.

Key Institutional Reforms: In 2014, the World Bank transitioned to a new organizational structure, reviewed its budget and financial capacity, and advanced a number of major policy reviews in addition to carrying out its regular lending activities.

- *Restructuring:* The World Bank’s restructuring included the creation of “global practices,” departments organized around technical specialties, such as education, water, and agriculture, and “cross-cutting solutions areas” to address climate change, fragility, gender, and jobs. The purpose of the new global practices is to improve knowledge sharing about specific sectors across different units of the World Bank and strengthen the World Bank’s focus on results.
- *Financial Capacity:* The World Bank has taken measures to boost revenue flows, increase the leverage of the IBRD’s and IFC’s capital base, and reduce administrative costs by \$400 million. The United States supports these measures because they respond to many of our key financial objectives (e.g., increasing loan charges for borrowers and better leveraging of existing capital), and will improve both the World Bank’s lending capacity and long-term financial sustainability without requiring additional funding from shareholders.
- *Safeguards Review:* The World Bank is undergoing a multi-year review of its environmental and social safeguards to develop a strengthened and integrated policy framework. The review and update is scheduled to conclude this year. The U.S. objective is an up-to-date, integrated safeguards policy framework that improves the clarity, coherence, efficiency, and effectiveness of the World Bank’s safeguards.

The United States believes that the World Bank’s safeguards policies are an integral part of its comparative advantage and add value beyond the financing that the World Bank provides. The safeguards are an essential tool for avoiding or mitigating environmental and social risks in World Bank-financed projects, and are a key component of borrower and World Bank risk management efforts. Historically, the World Bank has been a global leader in safeguards, and the review should result in the establishment of a new and comprehensive institutional approach that recognizes safeguards as critical for advancing the World Bank’s development goals and meeting developing countries’ needs. The World Bank is including several new important areas in the updated

safeguards regime, including labor, and is strengthening its approach to social assessments.

In addition, given the recent reporting on serious weaknesses in the World Bank's implementation of its involuntary resettlement policy, we are encouraging World Bank management to markedly improve the World Bank's performance in this area. Management has produced an action plan that outlines the steps that the World Bank will take to strengthen the application of the involuntary resettlement policy. Some of the steps include significantly increasing the budget for supervising the implementation of involuntary resettlement in World Bank-financed projects, introducing better tracking tools in order to monitor the status of involuntary resettlement, and providing technical assistance to borrowing countries with limited capacity to manage involuntary resettlement. While we welcome these steps, we are also considering additional steps that will help hold World Bank management accountable for implementing the action plan.

- *Procurement Review*: The World Bank launched an extensive review of its procurement policies in 2012, which it is aiming to conclude in 2015. The procurement review is assessing how the World Bank should modernize its procurement policies in light of an evolution in its lending portfolio, changes in global procurement practices, and development of country capacity to manage procurement processes. Proposed improvements include enhanced methodologies for supporting value for money in procurement, a more robust complaints mechanism for bidders, greater engagement by World Bank staff across the entire contract cycle, and a commitment to strengthen the capacity of both borrowing countries' and the World Bank's procurement staff. We will continue to engage with U.S. businesses, civil society organizations, and experts across the United States Government so that the World Bank maintains high standards in order to safeguard its resources, creates a level playing field for all bidders, and supports capacity building in client countries.
- *Program for Results (P4R)*: P4R is a relatively new World Bank financing instrument that pays clients for the achievement of outcomes or results, such as the number of children immunized, rather than for inputs, such as the number of vaccine doses purchased. We see P4R as an innovation in development finance that can build the capacity of borrowing countries, if done correctly. We also support the concept behind P4R, which is to link payments to the achievement of development results that are tangible, transparent, and verifiable. There has been strong demand for P4R thus far. World Bank management recently completed an early implementation review of P4R. The review was positive overall, indicated that the World Bank respected all of the conditions that the Board set when P4R was approved, and recommended eliminating a cap on the percentage of World Bank annual commitments for which P4R can be used. We view P4R as still in a pilot phase. While we believe that there is scope to continue rollout of the instrument, we believe that the pace of the rollout should be based on experience, including the findings of an independent evaluation. We remain in active discussions with World Bank management about this initiative.

2015 Priorities: The key U.S. priorities for 2015 are: (i) helping to ensure that the implementation of the institutional reform strategy, introduced in late 2013, results in a more efficient and effective World Bank; (ii) pressing for a more effective and up-to-date environmental and social safeguards framework; (iii) pushing for a comprehensive and satisfactory update of the World Bank's procurement policy to maintain a level playing field for U.S. firms; (iv) maintaining a reasonable cap on use of P4R, pending completion of an independent evaluation, and (v) further advancing U.S. climate resilience objectives at the World Bank, including refining climate resilience indicators.

African Development Bank (AfDB)

Performance in 2014:

- *Total AfDB financing commitments were \$7.6 billion. Commitments from the AfDB's non-concessional window were \$4.8 billion. Financing commitments from the concessional window, the African Development Fund (AfDF), totaled \$2.4 billion.*
- *Of the total AfDB commitments, sovereign loans and grants accounted for \$4.6 billion (61 percent) and private sector projects, investments, and guarantees accounted for \$3.0 billion (39 percent). New financing operations continued to reflect the AfDB's selectivity in its choice of project sectors, with approximately half of total projects addressing infrastructure (of which energy is the dominant subsector, followed by transportation, water supply and sanitation, and communications).*
- *The distribution of total AfDB loan and grant approvals by sub-region was as follows: West Africa – 27 percent; Southern Africa – 26 percent; East Africa – 14 percent; Central Africa – 8 percent; and North Africa – 7 percent. Loan and grant approvals for multinational projects and programs amounted to 18 percent.*
- The AfDB provided notable support in the following areas: financing \$221 million for the response to Ebola, including an innovative program to recruit African doctors and health workers to help combat the epidemic, and longer-term support to strengthen public health systems in West Africa; committing more than \$2.2 billion for energy projects (of which 24 percent was financing to the private sector), including support to Power Africa projects across the continent; and promoting financial sector development and small and medium enterprises (SMEs), including approval of a flagship project to support a Nigerian bank that specializes in SME financing and serves over one million clients, 90 percent of whom are women.

AfDF Replenishment: In 2014, the AfDB began implementing the reform commitments that the United States and other donors advocated for as part of the AfDF's thirteenth replenishment (AfDF-13). Negotiation of AfDF-13 concluded in September 2013 and resulted in an overall replenishment of \$7.3 billion. During the AfDF-13 negotiations, the United States urged the AfDF to build on its strong track record in infrastructure by increasing its focus on mobilizing private sector financing for viable infrastructure projects. Key reform commitments during AfDF-13 include: (i) developing new concessional risk mitigation and credit enhancement

instruments to catalyze private finance for infrastructure, (ii) strengthening support for gender objectives through better use of gender-disaggregated data and indicators, and implementation of a revised gender framework that tracks gender outcomes, (iii) improving the effectiveness of assistance to fragile states that demonstrate the political will to implement key reforms, and (iv) strengthening the financial sustainability of the AfDF by changing concessional loan terms. In 2014, the United States also participated in preliminary working group discussions about policy and financial innovations for the next AfDF replenishment.

Key Institutional Reforms: The AfDB adopted a number of new policies in 2014, in particular three key strategy documents to guide implementation of AfDF-13 commitments in the areas of gender, fragile states, and governance. The AfDB strengthened its approach to gender in 2014 by appointing a special envoy for gender, and by adopting and implementing an institution-wide Gender Policy. The AfDB adopted a new strategy and operational guidelines for addressing fragility in Africa, including the incorporation of an innovative “fragility lens” across all programming, to help fragile states achieve more resilient and inclusive development. Throughout 2014, the United States also engaged with the AfDB on core governance priorities, such as reviewing the AfDB’s Independent Review Mechanism (IRM), which provides recourse to people adversely affected by projects; updating the AfDB’s evaluation policy to strengthen the independence and effectiveness of the AfDB’s independent evaluation unit; and ensuring a successful return of the AfDB’s headquarters from Tunis, Tunisia to Abidjan, Cote d’Ivoire (from which the AfDB moved in 2003 due to civil strife), including putting in place a detailed business continuity plan and an Ebola response plan.

2015 Priorities: Our key priorities for the AfDB in 2015 include (i) electing a new AfDB president who possesses both a strong vision for the AfDB and the capacity and managerial talent to implement that vision; (ii) continuing the AfDB’s strong partnership on key U.S. priorities such as the Power Africa Initiative and supporting Ebola-affected countries, and (iii) encouraging the AfDB to continue building its capacity to promote African private sector growth.

Asian Development Bank

Performance in 2014:

- *The AsDB committed \$10.4 billion in non-concessional resources for public and private sector activities. The Asian Development Fund (AsDF) committed \$3.1 billion in concessional resources.*
- *Top recipients of funds were India (21 percent), China (13 percent), Pakistan (10 percent), Vietnam (8 percent), and the Philippines (7 percent).*
- *Total AsDB commitments focused primarily on infrastructure projects (74 percent), mainly in transportation (30 percent), energy (27 percent), and water supply and sanitation (14 percent).*

- The AsDB provided notable support in the following areas: continuing assistance to the Philippines to assist with the recovery from Typhoon Yolanda; providing \$400 million to Pakistan to implement energy sector reforms; and financing support to repair infrastructure damaged by flooding in Afghanistan.

AsDF Replenishment: In 2011, donors agreed on a replenishment level of \$12.4 billion for the AsDF's tenth replenishment (AsDF-11), which covers the four-year period from 2013-2016. While the overall size of the replenishment represented a 10 percent increase from AsDF-10, the U.S. contribution declined by 22 percent, reflecting a multi-year plan to clear U.S. unmet commitments to the AsDF. Under AsDF-11, donors and the AsDB agreed to focus efforts on inclusive growth that reduces poverty. AsDB management also agreed to changes to increase lending capacity, including hardening loan terms for wealthier AsDF countries. AsDF-12 negotiations will begin in the fall of 2015.

Key Institutional Reforms: Our reform priority has been the design of the proposed merger of the AsDB's concessional and non-concessional lending resources. This major reform is historic and very promising. Merging all lending (whether concessional or non-concessional) into the AsDB's Ordinary Capital Resources increases the ability of the AsDB to leverage its equity. This, in turn, allows the AsDB to boost its lending capacity from approximately \$13 billion annually to \$17 billion over the next decade, with no need for additional capital from shareholders. The merger will also reduce the level of donor resources required for AsDF replenishments. The United States and other donors successfully pressed for assurances that the increased lending capacity from the merger would primarily benefit the poorest countries in Asia. We also received third-party external validation that the merger would not harm the AsDB's AAA credit rating or financial standing.

The AsDB also continued to implement reforms negotiated in 2009 as part of its general capital increase, including implementing "Strategy 2020," its medium-term strategy, which aims to improve institutional effectiveness.

2015 Priorities: Our key priorities for the AsDB in 2015 include: (i) approving and implementing the merger of the AsDB's concessional and market rate lending windows; (ii) continuing to work with the AsDB to implement its Strategy 2020, including strengthening the AsDB's focus on poverty reduction; and (iii) beginning negotiations for the next replenishment of the AsDF.

European Bank for Reconstruction and Development (EBRD)

Performance in 2014:

- *EBRD investments in 2014 reached \$10.8 billion.*
- *Top recipients of investments were Turkey (16 percent), Ukraine (14 percent), Russia (7 percent), Poland (7 percent), and Egypt (7 percent).*

- *EBRD business volume in 2014 was concentrated in the following sectors: financial institutions (32 percent), corporate (26 percent), infrastructure (23 percent), and energy (19 percent).*
- The EBRD provided notable support in the following areas: \$1.5 billion in approvals for Ukraine to support the government's reform efforts; allocation of \$427 million of net income for completion of the new safe confinement at Chernobyl; significantly increased levels of assistance for Jordan, Egypt, Morocco, and Tunisia; and approval of temporary assistance for Cyprus.
- In response to strong guidance from the United States and other key shareholders, EBRD management has not brought forward any new projects for Russia since July 2014.

Key Institutional Reforms: In 2014, the EBRD completed reviews of three important governance policies: Environmental and Social Policy (ESP), Public Information Policy (PIP), and Project Complaint Mechanism (PCM). The United States worked to obtain key improvements in all three policies. Among the wide range of improvements to the ESP, the EBRD agreed that "all relevant direct and indirect impacts" will now be covered in environmental and social assessments. In the PIP, we achieved substantial improvement in disclosure of information on all projects. We also secured a key change that extends the period during which an affected stakeholder can submit a complaint to the PCM.

The EBRD also continued to increase the proportion of its investments in the early (less advanced) transition countries (ETCs), such as Armenia, Georgia, and Moldova. Projects in the ETCs accounted for 33 percent of the overall number of EBRD projects, with business volume of \$1.34 billion in the ETCs.

2015 Priorities: Key U.S. priorities for the EBRD in 2015 include: (i) reaching agreement on an effective Strategic and Capital Framework for the 2016 – 2020 period, including clear analysis of the EBRD's capital capacity and a compelling case for the use of its capital as the EBRD seeks to reenergize the transition to market economies in its borrower countries; (ii) providing continued support to Ukraine; (iii) achieving further improvements in EBRD gender and inclusion policies; and (iv) strengthening the EBRD's results measurement and the independent evaluation function, including the EBRD's capacity to measure transition impact.

Inter-American Development Bank (IDB)

Performance in 2014:

- *The IDB committed \$13.8 billion in loans and grants in 2014.*
- *Top recipients of IDB lending in 2014 were Brazil (22 percent), Mexico (18 percent), Peru (9 percent), and Colombia (7 percent).* Small and vulnerable borrowing countries received 37 percent of new loan approvals.

- *IDB lending was spread across many sectors, with the largest amounts going to financial markets (19 percent), transportation (17 percent), reform/modernization of the state (16 percent), and social investment (5 percent).*
- The IDB provided notable support in the following areas: approval of \$200 million in new grants and disbursement of \$206 million for critical projects in Haiti; engagement with Caribbean countries, especially those reliant on Petrocaribe, on diversifying energy supplies; and \$723 million in commitments for the Northern Triangle countries (El Salvador, Guatemala, and Honduras), coupled with advice for the governments on the design of reform programs to address the root causes of migration.

Key Institutional Reforms: The IDB continues to make progress in implementing the commitments that the United States and other shareholders negotiated in conjunction with the IDB's ninth general capital increase. IDB management and the Board of Directors continue to work together to strengthen implementation, including through a periodic update of the IDB's Institutional Strategy and a policy review of country strategies.

- *Private Sector Reform:* The IDB is working to finalize proposals for a restructuring of its private sector activities, which we expect will address many of the shortcomings of the current disjointed approach to the private sector that spreads private sector activities across four different windows. A major focus of the restructuring is increasing the development impact of private sector activities. The United States is advocating for efficient use of the IDB's capital, improved development effectiveness, and greater operational efficiency for the new private sector entity, while protecting the IDB's credit rating and current levels of sovereign lending.
- *Capital Adequacy:* IDB Governors approved a new capital adequacy mandate in October 2014, reaffirming the goal of maintaining the IDB's AAA credit rating. Following approval of the mandate, IDB management presented new capital adequacy regulations that will define the means of achieving that goal, including creating buffers for credit and market risk and a buffer to provide capacity for countercyclical lending. The revised regulations proposed by the IDB quantify the major financial risks and determine the capital requirements needed for each type of risk in order for the IDB to maintain a AAA rating.
- *Multilateral Investment Fund (MIF) Replenishment:* The current MIF agreement expires at the end of 2015. Due to a change in accounting procedures to bring the MIF's accounts into line with the rest of the IDB, MIF resources are now projected to last through the end of 2017. MIF donors are discussing the future of the MIF within the context of the private sector reform. The United States is pressing for a solution that will provide a more sustainable financing model for the MIF and an increased role in the financing of the MIF from regional borrowing members.
- *Presidential Elections and Term Limits:* We negotiated an agreement to limit the current IDB president to no more than one additional term and limit future IDB presidents to two terms. The agreement also strengthens the vetting process for presidential candidates.

2015 Priorities: Key U.S. priorities for the IDB are: (i) successfully enhancing the IDB's private sector work through the consolidation of its activities into one entity, (ii) strengthening the IDB's capital adequacy policy, (iii) working closely with IDB management to provide enhanced support for the Northern Triangle countries in carrying out their Plan for Prosperity; and (iv) deciding on the MIF's future financing and its role in relation to the new private sector entity.

International Fund for Agricultural Development (IFAD)

Performance in 2014:

- *Total IFAD approvals were \$902 million. This includes \$852 million for new projects and additional financing for ongoing projects and \$50 million for grants under IFAD's global, regional, and country grant program.*
- *The regional distribution of IFAD commitments was: Asia and the Pacific – 38 percent; Near East, North Africa, and Europe – 26 percent; Western and Central Africa – 22 percent; Eastern and Southern Africa – 13 percent; and Latin America and the Caribbean – 0.6 percent.*
- *Top funding priorities included integrating rural poor into value chains, rural financial services, and climate adaptation activities, each of which received 16 percent of resources, followed by improved agricultural technologies (13 percent), natural resource management (13 percent), support for producers' organizations (10 percent), rural enterprise development (10 percent), and vocational skills development (6 percent).*
- IFAD provided notable support in the following areas: approval of a \$63 million loan to Egypt to assist with sustainable agricultural and livestock practices, a \$50 million loan to Uganda to support farmer livelihoods in northern areas affected by conflict, as well as grant support to the World Food Program to assist with the emergency response to the Ebola crisis in Liberia, Sierra Leone, and Guinea.

IFAD Replenishment: Negotiations for the tenth replenishment of IFAD (IFAD-10) concluded in December 2014. As part of the replenishment, the United States and other donors urged IFAD to consolidate and build upon reforms over the past 10 years to improve efficiency, strengthen delivery of results, and improve the long-term sustainability of project outcomes. Key commitments from IFAD management include: (i) mainstreaming climate adaptation across 100 percent of IFAD programs by end-2018; (ii) continuing to improve performance on incorporating gender and nutrition into projects; (iii) increasing IFAD's focus on scaling up successful projects; and (iv) enhancing IFAD's engagement with the private sector.

Key Institutional Reforms: IFAD introduced proposals to improve financial sustainability in 2014. IFAD collaborated with member states, including the United States, to develop a framework to guide sovereign loans through a comprehensive approach that takes into account programmatic, administrative, financial, and legal considerations. IFAD also released an update

of its social, environmental and climate procedures in 2014, which were revised to include new guidelines for climate risk screening and to better align with the safeguard practices of other multilateral institutions.

2015 Priorities: Our key priorities for IFAD in 2015 include: (i) reaching agreement on IFAD's sovereign borrowing framework; (ii) working with other member states to initiate a review of IFAD's governance arrangements; (iii) continuing IFAD's strong partnership on key U.S. food security priorities, including gender, nutrition, and climate adaptation; (iv) preparing for the selection of the next IFAD president in 2016; and (v) initiating a review of IFAD's performance-based allocation model and potentially updating IFAD's middle-income country lending policy. We will also review the results of IFAD's impact evaluation initiative, which are expected to become available in late 2015, as well as the findings of the Office of Independent Evaluation's study on IFAD's performance in fragile and conflicted-affected states.

North American Development Bank (NADB)

Performance in 2014:

- *NADB commitments totaled \$324 million, which reflects continued growth in private sector investments in sectors such as renewable energy.*
- *Wind energy constituted 60 percent of lending, followed by solar energy (13 percent), air quality and paving (14 percent), water infrastructure (10 percent), and public transportation (3 percent).*

Key Institutional Reforms: In 2014, the Board of Directors of NADB and the Border Environment Cooperation Commission (BECC) passed a resolution that recommended the merger of the two institutions. NADB and BECC already have plans to implement joint project development and technical assistance measures, as well as to foster closer staff collaboration. The two institutions work together on common projects and will function more efficiently as one institution, including requiring fewer resources from the United States and Mexico for administrative budgets. The NADB and BECC are also combining and modernizing their procurement standards. In addition, NADB has started to perform comprehensive results measurement studies of its completed projects, and the United States will continue to work with NADB to further promote the use of robust impact evaluations.

2015 Priorities: In 2015, key priorities for NADB are: (i) finalizing commitments on a general capital increase to allow the NADB to continue its strong support for projects on both sides of the border; (ii) negotiating and implementing the merger of the NADB and BECC; (iii) implementing changes to NADB's management structure following the merger, including appointment of a chief environmental officer; and (iv) developing a strategic direction plan for the NADB's core and emerging sectors in coming years, including continuing to build results measurement and evaluation capabilities.

Report on IDA Contribution to Graduation

The U.S. Department of the Treasury presents this report consistent with 22 U.S.C. § 262r-6(b)(2). That section directs the Secretary of the Treasury to report to Congress on how the World Bank's IDA-financed projects contribute to the eventual graduation of a representative sample of countries from reliance on financing on concessionary terms and international development assistance.

IDA provides highly concessional funds to the poorest countries, and ideally supports growth and development that ultimately allows these countries to graduate from IDA. The United States believes strongly that IDA should direct its scarce concessional resources to the poorest countries that have the most limited access to other sources of finance. Reviewing the process by which IDA helps its richer, more creditworthy clients sustainably graduate from reliance on concessional resources is an important priority within the working group that the United States is co-chairing during IDA-17 on IDA's long-term vision and financial sustainability.

The IDA graduation process is normally triggered when a country's per capita income exceeds the "operational" graduation threshold (currently \$1,215) for at least two consecutive years and the country is deemed creditworthy enough to receive loans from the World Bank's IBRD. The process involves a phasing out of IDA lending and phasing in of IBRD lending. Before graduation, there is typically an intermediate stage of undetermined length, known as "blend" status, during which countries can access both IDA and IBRD resources. There are currently 18 blend countries: Bolivia, Cabo Verde, Cameroon, Republic of Congo, Dominica, Grenada, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, Sri Lanka, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Uzbekistan, Vietnam, and Zimbabwe.

IDA's goal is to help countries achieve levels of growth and institutional capacity that allows them to finance their own development needs. To date, 32 countries have graduated from IDA. Angola, Armenia, Bosnia and Herzegovina, and Georgia graduated in 2014. India also graduated in 2014, but since there is a constraint on its additional access to IBRD lending (as it has already reached its sustainable borrower limit), India will remain eligible for a limited amount of transitional assistance from IDA during IDA-17 to avoid a precipitous drop in development resources. During IDA-17, IDA management plans to form a graduation task force that will evaluate the following countries' readiness and help the countries' authorities prepare for graduation: Bolivia, Moldova, Mongolia, Nigeria, Pakistan, Papua New Guinea, Sri Lanka, Timor-Leste, and Uzbekistan. Vietnam is expected to graduate at the beginning of IDA-18 in 2017.

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Questions for the Record Submission from Representative Dold

Iran Agreement and U.N. Sanctions Relief

Question 1:

- **The administration has been clear that any relief from U.S. sanctions on Iran under a final agreement would be gradual and only after Tehran demonstrates its compliance. Further the administration has said it would use waivers to suspend sanctions, rather than immediately lifting them, so that the sanctions could be easily re-imposed in the case of Iranian non-compliance. Should U.N. sanctions be lifted only after Iran demonstrates compliance with an agreement over a long period of time? Will we push for a suspension, rather than a lifting of the U.N. sanctions?**

Answer:

The current United Nations Security Council Resolutions (UNSCRs) regarding Iran will be replaced by a new UN Security Council resolution to endorse the JCPOA and provide sanctions relief only after Iran verifiably completes key nuclear-related steps. The new UNSCR will also establish ongoing, binding restrictions on Iran's procurement of nuclear-related and dual-use materials and technology, which would require UN member states to get prior approval before supplying sensitive items or engaging in certain nuclear activities with Iran. UN restrictions relating to Iran's arms transfers and ballistic missile activities will also remain in place for a significant period of time.

Question 2:

- **If the sanctions are lifted, wouldn't it be very difficult if not impossible to re-impose them as this would require support from Russia and China?**

Answer:

If Iran materially violates its commitments, then all the UN sanctions can be reimposed. Russia and China have agreed to this principle. We are still developing the exact modalities by which the UN sanctions would be reinstated in response to a material violation by Iran. We have made clear to Iran and the P-5+1 that we need clear procedures in place to trigger the reimposition of the UN sanctions — in a manner that would not be vulnerable to veto by an individual P5 member — if we have evidence that Iran is failing to abide by its Joint Comprehensive Plan of Action (JCPOA) commitments. Furthermore, we will always retain the ability to reimpose powerful U.S. sanctions unilaterally if Iran breaches its commitments.

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Question 3:

- **If the international community was to approve a deal and make the deal legally binding, would the U.N. Security Council then become the final arbiter in decisions to re-impose sanctions on Iran should violations occur? If not, please explain to me how the United States and the European Union could re-impose sanctions without Russian and Chinese sign off?**

Answer:

The precise modalities by which alleged violations of a JCPOA will be adjudicated and how the reimposition of UN sanctions would occur are still being negotiated. We have been clear that the reimposition of sanctions cannot be subject to the veto of any one state, including Russia or China. Ensuring a credible and enforceable snapback mechanism is critical to maintaining leverage over Iran throughout a JCPOA, and we are working closely with all members of the P5+1 to develop such a mechanism. The United States will retain its ability to reimpose pressure, alone or in conjunction with our partners, if Iran does not live up to its commitments.

Question 4:

- **If violations are to be judged by the UNSC which includes countries such as Russia and China, the United States might be in a position of depending on these countries to vote against their economic interest and jeopardize investment opportunities in Iran to re-impose sanctions. Do you have confidence that they will have the same barometer as the United States in determining if Iran has violated the terms of the agreement?**

Answer:

We are pursuing an arrangement whereby no one country can stand in the way of snapping back UN sanctions if Iran materially breaches its commitments. Russia and China have been critical partners at the Security Council and in the P5+1 negotiations with Iran because they share the international community's belief that a nuclear-armed Iran is a threat to global peace and security. Internationally-supported sanctions on Iran have provided the leverage necessary to bring Iran to the negotiating table, where we have reached a major milestone in our efforts to ensure that Iran's nuclear program will be exclusively peaceful. If Iran fails to provide and abide by these assurances, we will work closely with our international partners, including Russia and China, to reimpose pressure on Iran, including by snapping back UN sanctions. We are working closely with all members of the P5+1 to develop a mechanism whereby no one country can veto the snapback of sanctions in response to Iranian violations.

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Nuclear vs. Non-Nuclear Sanctions

Question 5:

- **Virtually every sanction on Iran in U.S. law is based on the myriad of bad activities by Iran, including its missile program, support for terrorism, support for the Assad regime and its abysmal human rights record. Can you outline the department's thinking into how these sanctions would be unwound and how you will think about which sanctions should be lifted and which should not if there is a nuclear deal with Iran?**

Answer:

The key parameters announced on April 2, 2015 by the P5+1 and Iran envision only the suspension and eventual lifting of nuclear-related secondary economic and financial sanctions on Iran. The array of sanctions that specifically target Iran's human rights abuses, its support for terrorism, its assistance to the Assad regime, and its destabilizing activities in the region will remain in effect and will be vigorously enforced.

Sanctions Implementation

Question 6:

- **The administration was very clear at the start of the Joint Plan of Action that the sanctions relief being granted Iran was very limited and we would stringently enforce all remaining sanctions. In the last six months, there has been just one sanction enforcement announcement made by the administration. Why has there been such limited sanctions enforcement during the JPOA? Did Iran stop its illicit procurement efforts and attempts to bypass energy and financial sanctions?**

Answer:

As we committed to do when the JPOA was announced in November 2013, we have continued to vigorously enforce our existing sanctions. Since the JPOA was announced in November 2013, Treasury has taken action against approximately 100 entities and individuals for their involvement in Iran's support for terrorism, human rights abuses, sanctions evasion, Weapons of Mass Destruction proliferation, and other sanctionable conduct. We have also levied approximately \$450 million in civil penalties against parties that violated our sanctions. In addition to our public actions, we also regularly engage behind the scenes with governments and companies where we see activity of concern to warn them of our sanctions and to urge their adherence. Treasury Department officials have traveled the world making it clear that Iran is not open for business, and we have had substantial success with such efforts. Treasury will continue such efforts throughout the JPOA period and for as long as necessary thereafter.

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Questions for the Record Submission from Representative Duffy

Question 1:

Cyber threats are quickly becoming the number one threat to Americans' personal information, financial safety, and livelihood, and mounting a coordinated defense against those threats will be key to combating them. Please detail the steps that Treasury's Financial Sector Cyber Intelligence Group is taking in those efforts.

Answer:

Treasury's Financial Sector Cyber Intelligence Group (CIG), which is part of the Office of Critical Infrastructure Protection and Compliance Policy, identifies and analyzes all-source intelligence on cyber threats to the financial sector; shares timely, actionable information that alerts the sector to threats and enables firms' prevention and mitigation efforts; and solicits feedback and information requirements from the sector. The CIG produces threat and mitigation bulletins; responds to Requests for Information from the financial sector about specific issues of concern, usually within one, three or five days, depending upon the priority assigned by the sector; delivers monthly classified briefings on cyber threats to the financial sector to appropriately-cleared financial sector representatives and regulators; and encourages the sharing of information on specific threats to financial institutions. The CIG currently pushes out its bulletins in a machine readable format to the financial sector and is developing tools, systems, and processes to automate distribution of this machine readable information. The CIG posts USG financial sector-related cyber products to a financial sector portal on the Department of Homeland Security Information Network. The CIG is also represented at the National Cybersecurity and Communications Integration Center and National Cyber Investigative Joint Task Force.

Question 2:

Can you explain what problem the Financial Stability Board and the International Association of Insurance Supervisors (IAIS) is attempting to address by the creation of an international capital standard for "internationally active insurance groups?" Is it Treasury's position that simply doing business in more than two countries contributes so much to the riskiness of a company that it requires an entirely new solvency standard? If not, then what justifies treating this group of insurers differently?

Answer:

The financial crisis demonstrated that the insurance sector is an integral participant in the financial services sector and capital markets. Also, in the last ten years, the pace of globalization in insurance markets has increased exponentially and is expected to continue to grow in the coming years. Insurers are increasingly operating on a cross-border basis across multiple jurisdictions with varying accounting standards, supervisory regimes, and consumer protections.

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With this expanding amount of cross-border activities, global supervisors are increasingly desirous of a common language and common standards by which to understand how a globally active insurer manages risk. These supervisors want to know how consumers subject to that supervisor's protection fit into the insurer's broader risk management approach. By establishing a comparable, global capital standard across jurisdictions, global supervisors will have a common understanding of the financial strength of firms operating across jurisdictions. Establishing prudentially sound, equal footing for U.S.-based insurers will promote global financial stability and make it easier for U.S. firms to operate successfully around the world.

As has always been true in the insurance sector, international standards are not self-executing. U.S. state or federal authorities may impose a standard or requirement on a U.S. insurance organization. In the case of the United States, for firms that operate as part of a bank or savings and loan holding company or nonbank financial company designated by the Financial Stability Oversight Council (FSOC), the Federal Reserve has the authority to implement the standard. For firms not subject to oversight by the Federal Reserve, the state insurance regulators would have authority to implement the standard.

Question 3:

As you know, insurance companies in the U.S. are regulated for solvency at the legal entity level. Can you identify for me the specific failure in the current regulatory system that would necessitate the imposition of a brand new, group-level capital requirement?

Answer:

The global financial crisis demonstrated that insurers, many of which are large, complex, and global in reach, are integrated into the broader U.S. financial system and that insurers operating within a group may engage in practices that can cause or transmit severe distress to and through the financial system. The damage to the broader economy and to the financial system caused by the financial crisis underscored the need to supervise firms on a consolidated basis, to improve safety and soundness standards so as to make firms less susceptible to financial shocks, and to better understand and regulate interconnections between financial companies. To this end, the ICS and BCR are group-wide capital standards and will supplement, rather than supplant, the existing state-based legal entity-based capital requirements.

During the financial crisis, a number of insurers received extraordinary support from governmental entities. This support was provided in the form of: (1) direct capital support by the federal government; (2) liquidity support through credit facilities established by the Federal Reserve; and (3) relief from statutory accounting principles (SAP) granted by state regulators. Direct capital support was provided to AIG through several, complex, multi-step investments from the Treasury and Federal Reserve. With regards to liquidity support, in at least 175 transactions from 2008 to 2009, firms engaged in the business of insurance made use of the Federal Reserve's Commercial Paper Funding Facility. Additionally, according to NAIC annual statement data, 61 life insurance groups reported positive effects on 2008 year-end surplus from state permitted or prescribed practices.

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Question 4:

Mr. Lew, through the Financial Stability Board and Federal Insurance Office, the Treasury Department has had extensive engagement in the IAIS process of developing capital rules for insurance companies on an international basis. Have you conducted any analysis of the potential impacts of IAIS standards on the U.S. domestic insurance industry – in terms of financial, legal, and accounting regimes US companies now confront – as well as the impacts that could be felt by policyholders and consumers?

Question 5:

If you have not, why is your department pressing ahead with this initiative?

Answer (Questions 4 and 5):

The work on a comprehensive supervisory framework for internationally active insurance groups (IAIGs) has been ongoing since 2009 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 insurance business models and risk metrics. These capital standards will be developed in three phases, starting with the standards-setting process at the IAIS, followed by field testing with U.S. insurance companies, and finally implementation by the appropriate state and federal authorities. Prior to implementation, the international capital standards will be tested directly with U.S.-based insurers and, more broadly, on the marketplace. The testing and the study will allow for the implementation of international standards that account for the impact in the United States.

Question 6:

What is the urgency for Treasury to have the IAIS rush to adopt an insurance capital standard by the end of 2016? Can this process be more deliberative with a more thorough and public analysis? Would you be willing to advocate a more deliberative process in your capacity as U.S. participants in the FSB and IAIS?

Answer:

The work on a comprehensive supervisory framework for internationally active insurance groups (IAIGs) has been ongoing since 2009 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 insurance business models and risk metrics. This work is moving forward incrementally and will require many years. In addition, prior to implementation, the international capital standards will be tested 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 international standards that account for the impact in the United States.

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As has always been true in the insurance sector, international standards are not self-executing. U.S. state or federal authorities may impose a standard or requirement on a U.S. insurance organization. In the case of the United States, for firms that operate as part of a bank or savings and loan holding company or nonbank financial company designated by the Financial Stability Oversight Council (FSOC), the Federal Reserve has the authority to implement the standard. For firms not subject to oversight by the Federal Reserve, the state insurance regulators would have authority to implement the standard.

Question 7:

The White House has recently directed administration officials to look at the very real possibility of expanding bankruptcy options for all student loan borrowers, a process that would drive up borrowing costs and further reduce debt responsibility. Our college graduates are leaving college saddled by \$30,000 worth of debt, a debt that makes up more than a trillion dollars. How would shifting even more student loans away from private lenders to the federal government benefit our financial system?

Answer:

The federal student loan program is intended to increase access to higher education, so federal and private student loans differ significantly in availability, interest rates, and repayment options. Federal loans are available to almost all college students without a credit check, and the interest rate is not linked to the individual borrower's risk profile. This is in contrast to private student loans where lenders charge a higher interest rate or require a cosigner for riskier borrowers or outright deny credit to those who appear too risky. As many students are young adults, they are unlikely to have a sufficiently established credit history to be approved for a student loan by a private lender or receive a rate lower than that on a federal loan. Federal borrowers may also be eligible for income-based repayment programs, which limit the monthly student loan payment to a fixed percentage of borrower income, providing borrowers a safety net if they experience surprising income drops.

Question 8:

How can FSOC, an institution purposefully created to reform the banking process that is purported to be committed to transparency continue to withhold information regarding Council meetings? Just last week Treasury convened an executive session yet all the public have received regarding that is a one page press release with almost no tangible information? How is that transparent?

Question 9:

Will you enlighten this Committee as to what was discussed in detail? What decisions were made at the Council meeting? Better yet, what data can you share with this Committee regarding the bank stress-testing process for 2015?

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Answer (to questions 8 and 9):

The Council is committed to providing as much information as possible to the public regarding its meetings. Pursuant to its transparency policy, meeting minutes, which serve as official records of the Council meeting, include details of each agenda topic and related discussions. Minutes are made available following the review and approval by the FSOC, which generally occurs at a subsequent meeting. The minutes for the March 11 meeting were approved by the Council at its May 19 meeting and posted to its website that same day. In order to provide more information immediately following meetings and in advance of the release of the minutes, the Council last year began also posting readouts immediately following each meeting to provide a brief summary of the topics that were discussed. Full, un-redacted minutes for all of the FSOC's meetings are available on its website, www.fsoc.gov.

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Questions for the Record Submission from Representative Ellison

Question 1: Safe Harbor Legislation

The Money Service Business Act of 2008 (H.R. 4049- 110th) clarified that an insured depository institution has no obligation to review the compliance with federal anti-money laundering requirements of a money transmitting business for whom it maintains an account if such institution has on file specified mandatory self-certifications submitted by the money transmitting business. It retained criminal and civil penalties. It also shielded financial institutions from liability for the non-compliance of a money transmitting business and its agents. This bill passed the House in the 110th. However, the Treasury Department issued a veto threat against the bill.

- Does the Treasury Department still have concerns about that bill? What are they?
- In light of the difficulty facing money services businesses, is Treasury willing to reconsider your opposition to some type of safe harbor?
- What type of legislation clarifying the responsibilities between financial institutions and MSBs could meet with your approval?

Answer:

- **Money Service Business Act of 2008:** Under the draft bill, federally insured depository institutions would have no obligations to review the compliance of money transmitting businesses under certain circumstances. Treasury did not support this bill because it would have undermined compliance with AML/CFT regulations and the associated framework, including the effective implementation of the risk-based approach. Under the risk-based approach, entities are expected to identify, assess and understand the money laundering/terrorist financing risks they are exposed to so that they can develop the appropriate measures to mitigate these risks. All federally insured depository institutions are required to conduct due diligence on their customers through effective implementation of this risk-based approach. This framework provides our financial institutions with the capacity to allocate resources where they see the greatest risk.
- **Safe Harbor:** Treasury does not support a broad safe harbor provision for money transmitters, nor other financial institutions, because a broad safe harbor would reduce incentives to apply risk-based due diligence with regard to clients covered by the safe harbor. At the same time, the Treasury Department has worked to: 1) improve the clarity of our expectations for banks that have, or are considering taking on, MSBs as clients; 2) deepen our engagement with industry on strengthening controls and compliance for money transmitters; 3) continue to enhance our oversight of money transmitters; and 4) engage money transmitters, the communities they serve, and the banks that provide them access to the regulated financial system. To this end, Treasury held a Roundtable Discussion on Financial Access for MSBs in January 2015, which was attended by more than 100 industry stakeholders.

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- **Legislation:** Legislation such as the Money Remittances Improvement Act, signed by the President in August of 2014, helps support improving supervision of MSBs. As you know, Treasury supported this bill, which you introduced in April 2014. This law allows FinCEN (and the IRS as its delegate) to rely on examinations conducted by a state supervisory agency to the extent that the laws of the state in question require its financial institutions to comply with FinCEN regulations. The law will lessen duplicative oversight of MSBs by enabling federal and state regulators to share information about MSBs and certain other non-functionally regulated financial institutions. The law may also help MSBs by reducing the burden of dual (federal and state) examinations, ideally allowing for more efficient communication with regulators and more resources available to improve AML compliance and reduce costs associated with money transfers.

Question 2: Incentives

At the January MSB roundtable hosted by the Treasury Department, there was some suggestions to create incentives for financial institutions for providing banking services to MTOs, in light of the socially-beneficial role they fill in helping immigrants send money to their less fortunate family members back home.

- **Do you think incentives to financial institutions would make a difference in expanding access to banking services for MSBs? For example, Community Reinvestment Act credit could be provided for financial institutions willing to serve MSBs serving vulnerable nations.**
- **What types of incentives for banks and credit unions to encourage them to serve MSBs serving vulnerable nations like Somalia and Sudan could be created?**

Answer:

The Department of the Treasury recognizes the important role that remittances play in the lives of millions of people around world, including Somalia. We understand how particularly dependent Somalia is on remittances, and are aware of estimates showing remittances account for more than 25 percent of the country's GDP. In addition, we take seriously the concerns expressed by some money transmitters that they have increasing challenges on obtaining or maintaining bank accounts. Recognizing the importance of banking access for money transmitters, Treasury hosted a roundtable with industry participants in January 2015 to discuss banking access issues and money transmitters. One of the ideas mentioned by some industry participants was the possibility of amending the Community Reinvestment Improvement Act.

The Community Reinvestment Act provides incentives to financial institutions to provide direct assistance to underserved or disadvantaged communities, but not to bank other financial institutions that in turn may be providing financial services to those communities. After evaluating the provisions of the Act, we do not believe that the Community Reinvestment Act model is a long-term solution to promoting financial access for MSBs domestically and it would not alleviate concerns about money laundering and terrorist financing risks in jurisdictions

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receiving remittance payments, such as Somalia, a jurisdiction especially dependent on remittances.

The most viable way to address challenges in financial access for MSBs providing services to Somalia involves efforts to strengthen policies and procedures related to AML/CFT within Somalia. The Federal Government of Somalia (FGS) needs to work to build a stable financial system which includes AML/CFT regulatory and supervisory regimes, especially as they relate to the supervision of MSBs. A working and adequately-regulated financial system in Somalia would help provide assurances to banks in the U.S. that the Somali authorities can manage the AML/CFT risks associated with remittances being sent to Somalia. The Treasury Department, along with other agencies in the U.S. government, supports efforts by the FGS, as well as the international donor community, to build a functioning and regulated financial system in Somalia.

Question 3: Interagency Guidance

The Treasury Department has promised to update its 2005 guidance for banks serving Somalia.

- **What is the status of the interagency effort to update and issue joint interagency guidance to banks on banking Money Services Businesses?**
- **How do you expect the new guidance to differ from the 2005 guidance?**
- **What new information will it provide to financial institutions to enable them to feel more comfortable providing banking services to MSBs?**

Answer:

Treasury has engaged in discussion with the Federal Banking Agencies regarding an update to its 2005 joint guidance to banks on the regulatory expectations related to the provision of banking services to MSBs. At present, the 2005 joint guidance remains in effect, as noted in the Federal Financial Institutions Examination Council Bank Secrecy/Anti-Money Laundering Examination Manual published in the December 2, 2014 FFIEC manual update. Treasury continues to believe that banks can manage the risk of MSBs, even those operating in high-risk areas, provided that they have appropriate, risk-based controls in place. FinCEN, which is the agency primarily responsible for administering the Bank Secrecy Act and the federal regulator of MSBs, issued a public statement in November 2014 to make this clear and to encourage banks to assess clients on a case-by-case basis, rather than declining banking services to entire categories of clients. FinCEN continues to discuss with industry and the Federal banking regulators whether additional guidance would be useful and effective.

Question 4: Creating a formal working group

Now former Undersecretary Cohen mentioned that the genesis of January's MSB Roundtable came from the Bank Secrecy Act Advisory Group (BSAAG). Participants at the Roundtable said a more structured task force comprised of government, bank and

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MSB representatives needed to be created to talk directly to each other and search for solutions.

- **What consideration is being given to forming such a task force?**

Answer:

The Bank Secrecy Act Advisory Group (BSAAG) is a Congressionally-mandated working group that is comprised of state and Federal regulatory agencies, law enforcement agencies and industry, on which FinCEN is the Chair. BSAAG suggested prioritizing direct engagement between all constituencies on the issue of financial access for MSBs on a more permanent basis. Following the May 2015 BSAAG plenary, a sub-committee will promote further discussion between law enforcement, regulators, and financial institutions for the purpose of identifying and understanding various factors involved in derisking and the impact on the provision of services to MSBs.

Question 5: Access to MSB exams

At the Roundtable, the idea of giving banks access to MSB exam information was suggested as way for banks to gather useful information about a potential MSB customer when doing their due diligence.

- **How practical is this suggestion and what can be done to implement it?**

Answer:

FinCEN continues to weigh the prospects of whether sharing examination information would help financial access for MSBs, for example by making due diligence more effective, or whether in turn this information would create negative consequences such as compromising confidential supervisory processes. At this time examination information continues to be confidential. However, allowing the sharing of examination information would not necessarily alleviate legitimate concerns about money laundering and terrorist financing risks in jurisdictions receiving remittance payments, such as Somalia.

Question 6: U.K. Safe Corridors

At the MSB Roundtable, Jennifer Fowler, Office of Terrorist Financing and Financial Crimes (TFFC) Deputy Assistant Secretary, mentioned that Treasury is working bilaterally with the UK with regard to its Safe Corridors project.

- **Are there features of the Safe Corridors project that the US government can consider implementing to assist US-based Somali MTOs in getting remittances to needy families in Somalia?**

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Answer:

Treasury supports the goal of the Safer Corridor pilot program to promote safe and transparent remittances to Somalia. At this stage, the pilot has not yet become operational and has faced setbacks with regard to the UK-Somalia corridors so it is not clear what features would be useful to assist U.S.-based Somali MTOs. We continue to engage with the WB and UK on the project to better understand how it may help to address weaknesses in the remittances channel and we are assessing how U.S. engagement could support the overall objectives of Safer Corridors. A key element of financial access for MSBs providing services to Somalia depends on efforts to strengthen policies and procedures related to AML/CFT within Somalia, and Treasury remains engaged on promoting these efforts. The Federal Government of Somalia needs to work to build a stable financial system which includes AML/CFT regulatory and supervisory regimes, especially as they relate to the supervision of MSBs. We continue to have discussions with the UK in order to understand the development and timeline for Safer Corridor.

Question 7: Technical Assistance to Somalia

Please describe the technical assistance efforts to date that the Treasury Department is offering to strengthen the Central Bank of Somalia.

- **What can you do to increase the technical assistance you are offering to the Somali Central Bank?**
- **What should the Somali government be doing to strengthen its ability to ensure remittances provide humanitarian relief without being misdirected to terrorist activities?**

Answer:

Based on a request from the Central Bank of Somalia (CBS), and with the support from the U.S. Department of State, Treasury's Office of Technical Assistance (OTA) is executing a training program for CBS bank supervision staff in the area of risk-based supervision. The first of four planned training sessions with the CBS was held in Nairobi, Kenya on June 2-5. This training is the culmination of negotiations that have been held between Government of Somalia officials, OTA, and the U.S. Special Representative for Somalia over the past year. CBS staff are being trained in basic financial sector examination and regulation as a first step toward enforcing regulations and legislation already in effect. This training, which is funded by the State Department, is being held in Nairobi, Kenya. The next training session is tentatively scheduled for the week of August 10, 2015. The mode of delivery of technical assistance by OTA as well as the frequency of direct engagement with CBS counterparts is primarily impacted by security considerations, which prevent on-the-job mentoring and assistance to the Somali counterparts at the Central Bank in Mogadishu.

Regarding what the Somali government can do strengthen its ability in this area, the Central Bank lacks technical capacity and staff to develop prudential banking regulations or regulate either the nascent commercial banking sector or the active *hawala* sector. Therefore, the CBS is unable to carry out even basic prudential supervision, despite Somalia's passage of a Financial

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Institutions Act. The CBS needs the capacity to undertake a basic examination of a commercial bank, regulate the nascent commercial banking sector, and begin to regulate the active *hawala* sector before they are able to take on additional tasks required by AML/CFT regulations. OTA's efforts are aimed at helping the Central Bank develop the internal processes to be able to examine and regulate the formal banking and *hawala* sectors, and to train Central Bank staff that will run those sectors of the Central Bank.

Question 8: State Department Money Transfers

In order to be compliant with the Vienna Convention on Consular Relations, the United States has worked with banks to ensure that the State Department can fulfill its consular obligations. State Department officials have acknowledged that the United States has a process for transferring money to Somalia, but their capacity is limited.

- **Is the Treasury Department capable of providing assistance to the State Department in order to facilitate temporary remittances through USAID programing or embassies in East Africa?**

Answer:

The Treasury Department is in close and constant communication with the State Department across a wide array of issues, including remittances. To this end, Treasury has worked with the State Department to better understand how embassies in East Africa and USAID pay for operations and facilitate payments. Through this, the Departments determined that these entities and their access to financial services do not offer a viable alternative for facilitating remittances. The Treasury Department defers to the State Department to describe its own capabilities.

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Questions for the Record Submission from Representative Fincher

Question 1:

During our exchange in the Financial Services Committee hearing, I pointed to the effects that we are seeing of uncoordinated regulations on our financial markets, specifically calling attention to the liquidity issues that we witnessed on October 15, 2014. In your response to my question, you suggested that the analysis of October 15th had not been data-driven and you agreed to provide a data-driven examination of the combined effects of regulations on the markets. You also asserted that financial reform has made "our system safer and more resilient" and that positive benefits are apparent. When can the committee expect to receive the aforementioned data-driven analysis on the effects of these regulations?

Answer:

Treasury is currently working with other relevant agencies to complete an in-depth analysis of the event that occurred in the Treasury cash and futures markets on October 15th. We expect this data-driven analysis of the event and potential contributing factors to be presented in a public white paper this summer.

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Questions for the Record Submission from Representative Huizenga

Question 1 – International Insurance:

Secretary Lew, the states have effectively regulated insurance for decades and have the staff and expertise to do so domestically and internationally. However, in the latter half of 2014, representatives of the Treasury and Federal Reserve voted at the International Association of Insurance Supervisors (IAIS) to shut down its transparent process and eliminated stakeholder participation in the formulation of international insurance standards. Accordingly, how does Treasury justify the fact that, in international discussions, it has undercut and not supported the state regulators on critical issues such as their opposition to closing meetings at IAIS and their opposition to the need for a one-size-fits-all global capital standard? How do you view and encourage transparency in these international meetings and negotiations?

Answer:

IAIS organizational reform has improved its financial independence, efficiency, and transparency. Formerly, the IAIS charged stakeholders as much as \$20,400 annually to receive the designation of "observer" and thereby receive access to certain meetings, social events, and information. Through 2014, the IAIS received approximately 40 percent of funding from observers – primarily industry – thereby creating the appearance of a *quid pro quo* arrangement that detracted from the credibility of IAIS members and stakeholders. Due to the IAIS organizational reform, the financial dependence upon industry no longer exists.

At the same time, the IAIS has dramatically improved its engagement with and transparency to stakeholders. Perhaps most importantly, the IAIS no longer discriminates between stakeholders that pay the fee and those that do not. In addition, the following examples illustrate the improvements to the IAIS processes for stakeholder consultation:

- In 2014, stakeholder sessions for all IAIS workstreams amounted to less than 12 hours, but in 2015 IAIS stakeholder sessions for all IAIS already amount to more than 60 hours, with more sessions to be scheduled.
- The IAIS web site will contain information available to the public, not just to stakeholders who pay the annual fee.
- With the launch of a consultation paper, the IAIS will host explanatory meetings and calls so that stakeholders can learn about substance and structure of the document in advance of providing comments.
- After receiving comments on a consultation paper, the IAIS will publish the comments received, release a summary of comments, and offer a reply to the comments.

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- For the various work streams (e.g. capital, governance or market conduct), stakeholder contact lists are being developed so that those stakeholders can provide input to a consultation paper prior to the paper's release for comment.
- Release of a monthly newsletter to describe developments in the preceding month and events scheduled for the coming month.

Question 2 - Financial Services Trade Negotiations:

Secretary Lew, I saw that you met with EU Commissioner Hill a few weeks ago to discuss the Capital Markets Union and the TTIP agreement. I took notice of Hill's remarks at the Brookings Institution regarding the importance of a regulatory component for financial services within the TTIP agreement. He said, "Given the volume of business done between the EU and the U.S., it makes sense for transatlantic cooperation to go into greater detail than the level currently seen in international fora." So, please explain why Treasury continues to oppose including financial regulatory matters in TTIP when every other sector in America would be subject to the regulatory dialogue.

Secretary Lew, as TTIP negotiations continue, it has become increasingly clear that the US position on financial services has been to negotiate on market access issues but refuse to engage on the regulatory side. When the agreement was announced, the President touted the agreement as being a "high-standard, comprehensive agreement that the global trading system is looking to us to develop." I understand the EU has put forth a proposal on regulatory issues to US negotiators. Why does Treasury refuse to engage on this topic? Isn't there a way to discuss future regulatory proposals that does not undermine the post-crisis reforms that have occurred on both sides of the Atlantic?

Answer:

Financial services are a critical part of our transatlantic economic relationship. In TTIP, as in all of our free trade agreements, the Administration seeks robust market access commitments for financial services to help protect U.S. financial services suppliers from discriminatory treatment in foreign markets. The TTIP is not, however, an appropriate or necessary vehicle for addressing financial regulatory cooperation. Such cooperation is already occurring, and we will continue to make progress in existing multilateral fora, such as the G-20, Financial Stability Board, and international standard-setting bodies. Bilaterally, given the need to build upon our successful post-crisis work and implement reforms more consistently, we are further enhancing transatlantic financial regulatory cooperation in the Financial Markets Regulatory Dialogue (FMRD). We have made clear to the European Commission that we will not agree to bring issues of financial regulatory cooperation into a trade agreement.

Question 3 - International Monetary Fund:

Secretary Lew, do you agree with Secretary Kerry that there is no permanency to the United States line-of-credit at the IMF, that these resources are not in fact permanent, but

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that they expire and that—quote “it has to be repaid” at the end of five years if it is not renewed? Those comments were made more than five years ago. Shouldn’t we be able to close down this line-of-credit now?

I understand that the New Arrangement to Borrow (NAB) is a line-of-credit that the United States authorized for \$100 billion in 2009. And I understand that the Administration is requesting that Congress approve its proposal to draw down this line-of-credit by about \$63 billion while simultaneously increasing the U.S. permanent commitment to the IMF by a similar amount, which would effectively double the permanent resources of the IMF. In that case, what happens to the remaining \$37 billion line-of-credit? Secretary Kerry said on the Senate floor when he was the Chairman of the Senate Foreign Relations Committee that the line-of-credit will “expire” and that it “it has to be repaid in five years if it is not renewed.” If the U.S. is doubling its permanent resources at the IMF, shouldn’t the United States be able to do as Secretary Kerry said and rescind the remaining \$37 billion line-of-credit?

Answer:

In recent years, the IMF has relied on both its quota resources and on resources from the New Arrangements to Borrow (NAB). The NAB is a set of credit arrangements with 38 countries that the IMF only draws upon when quota resources need to be supplemented in order to forestall or cope with an impairment of the international monetary system. For both the IMF quota and NAB, the United States receives interest from the IMF on those U.S. resources that are actually drawn down for IMF lending to member countries. Because the NAB serves as a backstop to supplement the IMF’s quota resources, a decision by NAB members to activate the NAB is required every six months in order for NAB resources to be available for IMF lending. In light of the inadequacy of current IMF quota resources relative to global economic needs because the U.S. has not yet approved quota reform, the NAB has been continuously reactivated every six months since April 2011.

Under the proposed IMF quota reform, we are asking Congress to shift an existing U.S. commitment (approximately \$60 billion) from the NAB to its core capital (quotas) in which the United States has the largest share and veto power. The remaining U.S. commitment to the NAB would be retained, but the NAB will return to its function as an emergency lending backstop. There would be no reason to activate the NAB unless the global economy has another massive financial crisis. Retaining the U.S. commitment to the NAB gives us veto power over its activation.

Question 4 – Argentina:

On September 20, 2011 the U.S. Treasury Department announced at a Financial Services subcommittee hearing that the U.S. Executive Directors would vote against granting loans to Argentina (other than a loan that serves basic human needs) in multilateral organizations, including the World Bank, until Argentina met certain benchmarks. In September 2014, the World Bank announced a new program for Argentina worth billions

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of dollars. While the United States does not have a veto over World Bank lending decisions, it does have a significant voice and an important vote on the institution's executive board. With the above information in mind:

- **Has the Treasury department's stated policy since 2011 regarding support for Argentina at the World Bank changed? Does the Administration continue to oppose World Bank lending to Argentina?**

Answer:

The Administration's stated policy regarding support for Argentina at the World Bank has not changed. The policy remains to oppose World Bank lending to Argentina, except in narrow circumstances, such as projects targeted at the poorest.

- **What specific actions did the United States representative to the World Bank take to oppose the new program for Argentina, announced in September 2014?**

Answer:

Since 2011, the U.S. Executive Director to the World Bank has consistently urged World Bank management and other Executive Directors to the World Bank not to provide new lending to Argentina.

In late 2013, following the Government of Argentina's settlement of all then outstanding final arbitral awards of the International Center for Settlement of Investment Disputes, the World Bank first indicated that it might propose a new lending program for Argentina. The U.S. representative to the World Bank urged World Bank management to delay such lending as we continued to encourage Argentina to meet other international obligations, including: 1) providing accurate economic data to the IMF; and 2) reaching a satisfactory arrangement with its Paris Club creditors to clear its bilateral official arrears.

In September 2014, when World Bank management presented a new program of lending for Argentina to the Board, the U.S. representative to the World Bank conveyed concerns to management, and ultimately voiced opposition at the Board to management's proposal to move forward with a new lending program.

- **What actions did the United States Executive Director at the World Bank take to encourage other countries to join the United States in opposing this lending to Argentina?**

Answer:

Until May 2014, the U.S. Executive Director's office had successfully banded together with many other World Bank Executive Directors to oppose the resumption of World Bank lending to Argentina. The Executive Director's office was able to make the argument that Argentina's longstanding arrears to the Paris Club of official bilateral

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creditors warranted a strong coalition to block World Bank financing. However, in May 2014, Argentina reached an arrangement with the Paris Club to fully repay over time its arrears on bilateral official loans from Paris Club members (including the United States), and Argentina successfully made the initial payments under the arrangement. After this event, nearly all Paris Club members dropped their opposition to World Bank lending to Argentina.

- **What else can the United States do in connection with its participation in multilateral development banks and other international financial institutions to compel Argentina to avoid yet another default?**

Answer:

The United States does not have the unilateral ability to compel Argentina to enact policy measures. In the multilateral fora in which the United States is a member, as well as bilaterally with the government of Argentina, we will continue to press Argentina to implement policies that respect its international obligations and return the country to sustainable growth.

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Questions for the Record Submission from Representative Luetkemeyer

Question 1:

In your testimony you stated that you would be willing to submit, for the record, public documents to go through in detailed analysis why specific transmission channels were determined to be present risk. Please submit all documents outlining the standards and criteria on which the Financial Stability Oversight Council makes determinations for nonbank entities designated as systemically important financial institutions.

Answer:

All of documents outlining the standards and criteria on which FSOC has made determinations are publicly available at www.fsoc.gov. These documents, available under the 'Designations' page of the site¹, include the public bases for each of the Council's previous determinations; the Council's final rule and interpretive guidance, published in 2012; and supplemental procedures, approved in 2015. A set of frequently asked questions about the process is also available on that page.

¹ <http://www.treasury.gov/initiatives/fsoc/designations/Pages/default.aspx>

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Questions for the Record Submission from Representative McHenry

Question 1:

As Chair of the Financial Stability Oversight Council (FSOC), please provide a comprehensive study that evaluates the cumulative costs of the new regulations created by the FSOC.

Answer:

With respect to designations of nonbank financial companies and financial market utilities, the regulations that designated firms will be subject to are established by the Federal Reserve and other agencies, and the Financial Stability Oversight Council (the Council) would defer to them regarding any consideration of costs and benefits regarding the rules they adopt.

Question 2:

As Chair of the Financial Stability Oversight Council (FSOC), please provide a comprehensive study that evaluates the cumulative costs and risks to the economy as firms prepare to meet the requirements of the Volcker Rule, while satisfying the new capital liquidity and leverage requirements.

Answer:

Treasury fulfilled its statutory role of coordinating the rulemaking around the Volcker Rule, and we continue to support the efforts of the five rulewriting agencies as they implement the final rule. The Council would defer to the rulewriting agencies regarding questions about their implementation.

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Questions for the Record Submission from Representative Mulvaney

Question 1:

As part of the Export-Import Bank Reauthorization Act of 2012 (Pub.L. 112-122), the Treasury Department is required to conduct negotiations to wind down and eliminate export financing programs. Specifically, Section 11 of that Act provides: "The Secretary of the Treasury ...shall initiate and pursue negotiations with other major exporting countries, including members of the Organisation for Economic Co-operation and Development (OECD) and non-OECD members, to substantially reduce, with the ultimate goal of eliminating, subsidized export financing programs and other forms of export subsidies; and with all countries that finance air carrier aircraft with funds from a state-sponsored entity, to substantially reduce, with the ultimate goal of eliminating, aircraft export credit financing for all aircraft covered by the 2007 Sector Understanding on Export Credits for Civil Aircraft (in this section referred to as the ASU), including any modification thereof" for small, large and heavy aircraft.

To date, the Treasury Department has provided little evidence that it is meeting that mandate or its goal. The reports provided by the Treasury Department to Congress as mandated by this statute have indicated that, aside from periodic meetings, little concrete progress has been made.

To that end, please provide to this Committee a list of every meeting, phone call and/or other correspondence you or your staff has had concerning negotiations regarding export financing programs and other forms of export subsidies. For each, please identify the date, the names and titles of all persons who were part of the meeting, phone call, or correspondence, and the subject matter, with specificity, of such meeting, call, or correspondence.

Answer:

Several times each year, Treasury officials engage in negotiations with foreign counterparts to press for disciplines on official export credit support. Treasury's aim in these negotiations is to make the terms and conditions of such support as market-oriented as possible, among as broad a group of official providers of export credit support as possible, so that private financial institutions are appropriately incentivized to meet the financing needs of exporters. These negotiations take place in two forums: (1) among a broad group of OECD and emerging market countries that are members of the International Working Group on Export Credits; and (2) among a narrower group of OECD countries that participate in the Arrangement on Officially Supported Export Credits.

1. The International Working Group on Export Credits (IWG)

The IWG is the focus of Treasury's effort to negotiate comprehensive disciplines on official export credit support. These negotiations include not only the OECD countries that have been

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the traditional providers of export credit support in past decades, but also the emerging market countries – in particular China, Brazil and India – that account for a growing global share of official export credit support. IWG negotiations take place three times each year, among the eighteen IWG members as well as a smaller “steering” group comprised of the United States, China, Brazil and the European Union. In addition to these negotiating sessions, Treasury officials engage at every level throughout the year to press for progress in the negotiations. Following are some examples of these engagements over the past twelve months (see attachment for more comprehensive listing):

- In July 2014, Secretary Lew, Under Secretary Sheets and other senior and staff-level Treasury officials utilized the U.S.-China Strategic and Economic Dialogue (S&ED) to press their Chinese counterparts on U.S. negotiating priorities within the IWG.
- In September 2014, Secretary Lew spoke by telephone with his Chinese counterpart to discuss priorities for President Obama’s visit to Beijing. IWG priorities were among the topics they discussed.
- In the months leading up to the IWG negotiations in September 2014, Treasury staff held numerous phone calls with IWG members to advance U.S. priorities for the negotiations.
- In the autumn of 2014, Secretary Lew and Under Secretary Sheets met on separate occasions with their Chinese counterparts to press U.S. negotiating priorities in the IWG.
- During President Obama’s state visit to China, Treasury senior officials pressed IWG priorities. The IWG also part of the joint statement released at the conclusion of the visit.
- In several meetings and calls between December 2014 and March 2015, the Secretary and Under Secretary pressed their Chinese counterparts on U.S. negotiating priorities in the IWG.
- In May 2015, the Secretary and Under Secretary utilized their meetings with G-7 partners to coordinate on advancing shared negotiating priorities in their respective bilateral engagements with China and other emerging market members of the IWG.

Following is the full list of IWG members: United States, China, European Union, Brazil, Australia, Canada, India, Indonesia, Israel, Japan, Republic of Korea, Malaysia, New Zealand, Norway, South Africa, Switzerland, Turkey and Russia.

2. The OECD Arrangement on Officially Supported Export Credits (“Arrangement”)

Treasury has given particular focus to its negotiations in the IWG, given the large and growing role of China and other emerging market countries as providers of export credit support. However, negotiations in the Arrangement among OECD countries continue to be a priority, as Treasury seeks continuously to negotiate terms and conditions to make the Arrangement as market-oriented as possible. While negotiations take place at the OECD three times a

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year, Arrangement participants engage extensively on export credit issues between negotiations, including through phone calls and bilateral meetings. Below are two examples from earlier in 2015 (see attachment for more comprehensive listing):

- Ahead of discussions at the OECD in March on possible reforms to Arrangement guidelines for determining interest rates, Treasury staff held several conference calls with OECD members to advocate a U.S. proposal to make the Arrangement’s interest rate mechanism more market-reflective.
- Treasury staff met separately in April with the European Commission to pursue issues raised during the March negotiations on interest rates, and to plan the way forward for the continuation of negotiations later in 2015.

Participants to the Arrangement include the following countries: Australia, Canada, the European Union (i.e., the European Commission representing EU member states), Japan, Korea, New Zealand, Norway, Switzerland and the United States.

Attached is a more complete list of Treasury’s engagements to advance disciplines on official export credit support. The list includes formal negotiating sessions as well as meetings and phone calls. Roughly 100 such engagements are documented since 2012. As the list is extensive, some engagements were consolidated to facilitate the presentation of data. Nevertheless, Treasury can provide additional details on specific engagements at the request of the Committee.

Question 2:

On October 10, 2013, you provided testimony before the Senate Finance Committee concerning the prioritization of payments in the event the debt limit was not raised. During that testimony, you stated:

“We [the Department] write roughly 80 million checks a month. The systems are automated to pay because for 224 years, the policy of Congress and every president has been we pay our bills. You cannot go into those systems and easily make them pay some things and not other things. They weren’t designed that way because it was never the policy of this government to be in the position that we would have to be in if we couldn’t pay all our bills.”

However, on May 7, 2014, you provided a letter to the Chairman of this Committee in response to his questions concerning prioritization of payments, and stated:

“If the debt limit were not raised, and assuming Treasury had sufficient cash on hand, the New York Fed’s systems would be technologically capable of continuing to make principal and interest payments while Treasury was not making other kinds of payments.”

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On more than one occasion during testimony before this Committee I have asked when did you know that the New York Fed was technologically capable of making the payments. You told me on May 8, 2014 that would “would have to check; I don’t recall the date.” I asked you yet again on March 17, 2015, “I have done it but if you are asking me today if I can tell you the date, I can’t tell you the date.”

They say the third time is the charm.

- A. Secretary Lew, when did you know the New York Fed’s systems were technologically capable of continuing to make principal and interest payments on the debt while Treasury is not making other kinds of payments? How did you come to gain that knowledge? Please provide evidence and documentation that verifies the date you knew the New York Fed’s systems were capable of prioritization.**
- B. Secretary Lew, in the event we reach the debt limit and exhaust extraordinary measures and Congress does not raise the debt limit, can the Treasury Department continue to make principal and interest payments on the debt? Yes or No?**
- C. Secretary Lew, will you commit that in the event we reach the debt limit and exhaust extraordinary measures and Congress does not raise the debt limit, the Treasury Department will continue to make principal and interest payments on the debt? Yes or No? If no, why not?**

Answer (to parts a-c):

Your question alludes to a hypothetical situation that can and should remain unthinkable—that Congress would, for the first time in history, fail to raise the nation’s borrowing authority in order to meet our country’s commitments. Failure to meet all of our obligations on a timely basis would constitute a default on the obligations not honored. We have said before only the President could decide to make principal and interest rather than other payments such as Medicare and veterans, and no President should ever have to make that choice.

As you note, Treasury has previously explained that if the debt limit were not raised and assuming Treasury had sufficient cash on hand, the New York Fed’s systems would be technologically capable of continuing to make principal and interest payments, although this approach would be entirely experimental and create unacceptable risk to both domestic and global financial markets.

There is no option other than raising the debt limit that could reasonably protect the full faith and credit of the United States. Any decision by the federal government to prioritize some payments over others is simply default by another name. If, for the first time in history, it should become impossible for our nation to meet all of its commitments, any decision regarding what to would be made based on the circumstances as they exist at that time.

Treasury is again at the debt limit. Only Congress can address this matter, and we encourage action without controversy or brinkmanship to increase the debt limit as soon as possible.

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Question 3:

As Chair of the Financial Stability Oversight Council, you are responsible for regulatory coordination on a number of important issues. Regarding the Volcker Rule, while the responsible regulators have professed to have formed an interagency working group, and have met with representatives of the public on various topics, the process through which this group determines feedback, clarification, or other responses to input remains unclear. Additionally, there are no guidelines as to when any decision on an issue presented to the group might be determined and disseminated to the public.

For example, in early December 2014, industry participants submitted a proposal for a compliance approach for the covered funds provisions of the rule, specifically with respect to securitizations, covered bonds, foreign ETFs and foreign securitizations. Though market participants are facing a looming July deadline, no response has been received from the regulators.

- A. Given the significant compliance requirements with significant implications for liquidity, can you please detail how and when an answer will be provided? If you will not be directly involved in the providing of answers, can you assure us that it is your goal to make the Volcker Interagency Working Group function properly so as to avoid confusion?
- B. SEC Commissioner Kara Stein has suggested that the Volcker Interagency Working Group establish formal procedures and timelines for the consideration of implementation questions raised by market participants. Would you be supportive of such a formal mechanism for the timely provisioning of answers to critical questions that arise during implementation and compliance?
- C. Significant concerns have also been raised about the classification of UCITS and other foreign public funds as "banking entities" and thus caught by Volcker restrictions – including by EU policymakers at the recent Financial Markets Regulatory Dialogue. Indications were given at FMRD that the issue would be resolved. This issue remains time-sensitive, because conformance period extension announced in December extension does not apply to funds launched after 2013. Can you please detail how and when an answer will be provided?

Answer (to parts a-c):

Treasury fulfilled its statutory role of coordinating the rulemaking around the Volcker Rule, and we continue to support the efforts of the five rulewriting agencies as they implement the final rule.

The Council routinely monitors for threats to financial stability as part of its ongoing mission. To the extent that market developments or other macroeconomic factors result in a potential threat to financial stability, the Council would assess that threat, including as part of its annual report to Congress.

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Questions for the Record Submission from Representative Neugebauer

Question 1:

In your testimony you stated you would reexamine the Office of Financial Research Report examining systemic indicators. This report was released in February 2015. Please submit for the record a formal opinion of the findings in the OFR report, including a comparison of the systemic risk presented by US G-SIBs and US regional financial institutions peer groups.

Answer:

The OFR report cited in your question did not present a comparison of the systemic risk presented by U.S. G-SIBs and U.S. regional financial institutions. It was, instead, an empirical study that applied proposed Basel committee banking supervision metrics to large U.S. banks using publicly available data. It is important to note that the views and opinions expressed in the report are those of the authors and do not represent official positions or policy of the OFR or Treasury. The OFR regularly publishes a variety of working papers and reports, including a number of preliminary research findings that are intended to generate discussion and critical comments regarding issues related to financial stability.

Question 2:

Under Sec. 115 of the Dodd-Frank Act, the Financial Stability Oversight Council (FSOC) has authority to recommend to the Federal Reserve Board that the asset threshold for "systemically important financial institution" designation under Sec. 165 should be raised. Please submit for the record any analysis, conducted internally or externally, that examines the appropriateness of the current asset threshold of \$50 billion.

Answer:

The FSOC has not formally considered raising the \$50 billion threshold. More generally, Dodd-Frank provides flexibility for regulators to tailor rules appropriately for small, medium, and large banks to address the various kinds of risks they can present. If additional tailoring proves necessary, there is further flexibility and administrative tools that could be explored.

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Questions for the Record Submission from Representative Pittenger

Question 1:

The Department of Homeland Security (DHS) collects a significant amount of information regarding commercial imports and exports. While the overwhelming majority of imports and exports are in furtherance of legitimate trade and commerce, criminal enterprises have been known to use trade in commercial goods to facilitate laundering of illicit proceeds. As part of the ongoing effort to ensure that the Administration is doing all it can to combat money laundering and the financing of terrorism, it is important to make sure all relevant data collected by the government is available to be searched simultaneously and not on a case-by-case basis. With that as a backdrop, please respond to the following:

- a) Is DHS' commercial information --such as bills of lading on goods crossing the border --incorporated into the Financial Crimes Enforcement Network (FinCEN) database routinely and not on a case-by-case basis? If not, why not, and are there any plans to facilitate the regular transfer of this data? Can routine incorporation of such data be done under Memoranda of Understanding? If not, may a statutory solution be needed? In that instance, please describe the statutory change needed.

Answer:

That data is not directly incorporated into FinCEN's database. FinCEN's database only contains forms filed by financial institutions pursuant to their Bank Secrecy Act (BSA) compliance obligations, and there are no plans to expand the database to include non-BSA filings. Nonetheless, FinCEN recognizes the importance and usefulness of Department of Homeland Security (DHS) commercial import and export data and encourages the synthesis of this data with BSA data in the context of FinCEN's ongoing joint analytic efforts with external law enforcement partners.

- b) Are there any impediments that may inhibit full and unfettered reciprocal information sharing between FinCEN's database and the various DHS commercial databases?

Answer:

FinCEN and DHS continue to enjoy a strong strategic information sharing relationship, although there is no effort underway to populate the FinCEN database with any information from the various DHS databases. For example, FinCEN's Intelligence Division has a number of senior analysts who support financial operations in the Drug Enforcement Agency's Special Operations Division. These analysts are in direct contact with DHS analysts who, when appropriate, share international trade and commerce information, including import and export data. This data is run against FinCEN's BSA database, which is used to further support current and ongoing law enforcement investigations. In addition, DHS, Homeland Security Investigations, Trade Transparency

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Units (TTUs) examine U.S. and foreign trade data to identify anomalies in patterns of trade that can indicate trade-based money laundering or other import-export crimes that HSI is responsible for investigating. The TTU owns and operates FALCON-DARTTS, which analyzes trade data, financial data, and law enforcement data to identify statistically anomalous transactions that may warrant investigation. Financial data consists of financial transaction reports filed pursuant to the BSA provided by FinCEN.

- c) **Are there ongoing discussions between you and DHS Secretary Johnson about ensuring that all objective information relevant to anti-terror financing efforts is incorporated in a single secure database?**

Answer:

Treasury and DHS are in regular contact regarding ways our two agencies can better inform our respective efforts to combat terrorist financing. We are confident that we can achieve this important goal through our ongoing strategic relationship, while at the same time maintaining our respective database autonomy.

If any of these initiatives are currently underway, please provide timelines for accomplishing them, and any information on necessary resources.

Answer:

Not applicable

Question 2:

Besides Russia and China, a number of countries are known or thought to be home to cyber criminals who have threatened the US financial system by hacking into banks or businesses and stolen personal or corporate financial information. These crimes minimally have cost the US hundreds of millions of dollars, yet even if such criminals are indicted in the US and arrested in their home country, many are protected because those countries have not executed Mutual Legal Assistance Treaties (MLAT) or other forms of extradition agreements with the US. One of those countries is Ukraine, where a proud hacker was at least fairly recently a Member of Parliament. Given the threat posed to US financial services industry and the US financial system in general, cyber hacking and the curtailment of it fall squarely within Treasury's jurisdiction. With that as a background:

- **Please detail the precise ways the Treasury Department is working with other elements of the US government to make sure indicted cyber hackers are returned to the US for trial. Are there legislative moves that Congress can make to aid in this effort? Please be specific.**

Answer:

We refer you to the Departments of Justice and State for any questions related to extradition treaties.

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- **Please furnish the Committee with information on your conversations Attorney General Holder and Secretary Kerry on efforts to erect Mutual Legal Assistance Treaties (MLATs), Memoranda of Understanding (MOU) or other extradition agreements with countries known or thought to harbor cyber criminals but with which the US has no extradition or similar agreement.**

Answer:

Treasury works closely with the interagency on cyber investigations and cyber strategy, particularly those that impact the U.S. financial sector. The USG is committed to employing whatever tools may be available to bring significant malicious cyber actors to justice and to deter future malicious behavior. Treasury defers to the Department of Justice and State to provide further information on the specific requirements for extradition. Treasury supports Administration proposals for legislative improvements that may help the USG better respond to malicious cyber actors.

- **In your statement in Kiev during the signing of the loan guarantees for Ukraine, you said the government there "is taking critical steps to tackle corruption." Does that include negotiating an extradition agreement with the US? If not, why not? Was a request for such an agreement part of the negotiations over the loan agreement? If not, why not?**

Answer:

Tackling corruption is an essential component of our economic assistance strategy in Ukraine, and the United States firmly supports anti-corruption efforts in Ukraine bilaterally, such as \$10 million committed last year by USAID for anticorruption measures, and through the IMF and multilateral development banks. Ukraine's IMF-backed economic reform program requires deep reforms to enable the country to make a decisive break from its past, including steps to prevent and prosecute corruption by public officials; overhaul the opaque, heavily subsidized energy sector and state-owned energy company; and clean up the judicial system and business climate. Conditionality in a U.S. Loan Guarantee agreement focuses on structural economic reforms that reinforce these objectives. Given the urgency of Ukraine's financing needs – caused predominantly by Russia's destabilizing actions in eastern Ukraine – U.S. loan guarantee agreements have been designed to promote robust, essential reforms that are executable within the timeframe associated with Ukraine's financing needs. These include steps to strengthen governance, reform the energy sector and eliminate wasteful energy subsidies – a wellspring of corruption – and support the establishment of a Ukrainian National Anti-Corruption Bureau.

- **Elsewhere in that signing statement, you said "Our respective governments are now proceeding to negotiate the detailed terms necessary to conclude a loan guarantee agreement." Are such talks still ongoing? Do they include extradition agreements? If not, why not?**

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Answer:

Negotiations with Ukraine were concluded in mid-May, and the authorities successfully issued \$1 billion in U.S. guaranteed debt at the end of May. The loan guarantee agreement does not include any conditions related to extradition treaties, and we defer to the Departments of Justice and State to address more generally the inclusion of an extradition treaty in these types of agreements.

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Questions for the Record Submission from Representative Ross

Question 1:

Would you agree that the de-designation of firms designated as SIFIs is the ultimate goal of the FSOC?

Answer:

The FSOC's mission is to identify risks to U.S. financial stability, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system. FSOC uses a number of tools to fulfill its mission and address risks to U.S. financial stability it identifies, including highlighting potential emerging threats in the FSOC's annual reports to Congress; making recommendations to existing primary regulators to apply heightened standards and safeguards; collecting and facilitating the sharing of information to assess threats to U.S. financial stability; and designating certain nonbank financial companies and financial market utilities for heightened supervision and prudential standards. If the FSOC designates a nonbank financial company for Federal Reserve supervision and enhanced prudential standards, such measures are intended to mitigate the risks the firm could pose to financial stability.

Regarding rescission of a designation, each designated company receives detailed information regarding the FSOC's analysis of the criteria for its determination. This information allows each company to make informed decisions regarding potential changes it could make if it were to seek a rescission of its designation. As within the context of other types of supervisory or regulatory actions, a company's management, directors, and shareholders are the appropriate decision makers to evaluate the potential considerations related to a decision to seek a rescission of an FSOC designation.

Regardless of whether a company actively seeks a rescission of its designation, the FSOC has a robust process to review all prior designations annually and we take these reviews seriously. As part of this process, companies can meet with FSOC staff to discuss the scope and process for the review and to present information regarding any relevant changes, including a company restructuring, regulatory developments, market changes, or other factors. If a company contests its designation during the FSOC's annual reevaluation, the FSOC intends to vote on whether to rescind the designation and provide the company, its primary financial regulatory agency, and the primary financial regulatory agency of its significant subsidiaries with a notice explaining the primary basis for any decision not to rescind the designation. The notice will address the material factors raised by the company in its submissions to the FSOC contesting the designation during the annual reevaluation. In addition, the FSOC will provide each designated company an opportunity for an oral hearing to contest its designation every five years.

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Question 2:

The Financial Stability Board is an international body charged with designating global systemically important nonbank financial companies. Although it has designated several companies also designated by FSOC, the Financial Stability Board is not subject to the requirements of the Dodd-Frank Act. Accordingly, I am interested in the degree to which FSOC relies on or considers designations by the Financial Stability Board in conducting its own assessment of SIFI prospects. Can you describe what attention or consideration, if any, FSOC gives to designations by the Financial Stability Board? Would you also please provide the Committee with any FSOC documents containing or relating to communications between the Financial Stability Board and FSOC, and each body's members or staff, concerning the designation of nonbank financial companies as either systemically important financial institutions or as global systemically important financial institutions?

Answer:

FSOC's process for designating nonbank financial companies pursuant to the Dodd-Frank Act is distinct from the international processes of the FSB with respect to identifying global systemically important financial institutions. In the FSB process, the relevant standard-setting body develops a methodology to identify companies for consideration by the FSB for identification as globally systemically important.

While the FSOC monitors international financial regulatory proposals and developments, the identification of a particular firm by the FSB as globally systemically important does not create a legal obligation on the part of the FSOC or its members to designate the firm or even consider it for designation. FSB identification also does not indicate that the FSOC will arrive at the same conclusion if the FSOC chooses to consider the firm. The FSOC does not rely on or consider designations by the FSB in conducting its own assessments of nonbank financial companies. The FSOC's evaluation of nonbank financial companies for potential designation is governed by the standards that Congress set forth in Section 113 of the Dodd-Frank Act and the process articulated in the FSOC's designations rule and interpretive guidance. The Government Accountability Office has stated that, based on a review of documentation supporting FSOC's determination decisions, it did not find references to FSB's evaluations or designations of global systemically important financial companies in FSOC's evaluation considerations².

Question 3:

Section 113(a)(2) of the Dodd-Frank Act sets forth the criteria that are intended to guide FSOC's designation analysis. Among the factors for consideration are leverage, the extent and nature of the off-balance sheet exposures of the company, and the amount and types of liabilities of the company, including the degree of reliance on short-term funding. According to the FSOC's own guidance, these criteria relate to the company's vulnerability

² From GAO-15-51 p52. <http://www.gao.gov/assets/670/667096.pdf>

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to “material financial distress,” which is a precursor to the company causing systemic effects sufficient to support a designation under FSOC’s first determination standard. Can you explain how FSOC evaluates a company’s vulnerability to “material financial distress” in the determination process? Would you also please produce to the Committee all documents relating to FSOC’s consideration of a company’s vulnerability?

Answer:

In the context of nonbank financial company designations, the FSOC considers a “threat to the financial stability of the United States” to exist if a nonbank financial company’s material financial distress or activities could be transmitted to, or otherwise affect, other firms or markets, thereby causing a broader impairment of financial intermediation or of financial market functioning. An impairment of financial intermediation and financial market functioning can occur through several channels, including:

- *Exposure.* A nonbank financial company’s creditors, counterparties, investors, or other market participants have exposure to the nonbank financial company that is significant enough to materially impair those creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability.
- *Asset liquidation.* A nonbank financial company holds assets that, if liquidated quickly, would cause a fall in asset prices and thereby significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings.
- *Critical function or service.* A nonbank financial company is no longer able or willing to provide a critical function or service that is relied upon by market participants and for which there are no ready substitutes.

All of the documents outlining the standards and criteria on which FSOC has made determinations are publicly available at www.fsoc.gov. The documents, available under the ‘Designations’ page of the site, include the bases for each of the Council’s determinations; the Council’s final rule and interpretive guidance, published in 2012; and the supplemental procedures, approved in 2015. A set of frequently asked questions about the process is also available on that page. The FSOC’s interpretive guidance provides additional detail regarding transmission channels and associated metrics that the FSOC may consider during its evaluation.

Question 4:

FSOC’s overarching objective is to designate systemically important companies in order to preempt threats to the financial stability of the United States. In evaluating companies for designation, has FSOC ever considered the degree to which the regulations attendant to designation might actually cause material financial distress at the company that could lead to systemic effects? Can you please produce to the Committee any documents relating to

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FSOC's consideration of whether and how to evaluate the effects of designation on SIFI candidates?

Answer:

A determination by the Council subjects a nonbank financial company to Federal Reserve supervision and enhanced prudential standards. These measures, such as a requirement to submit a living will to regulators, are intended to mitigate the risks the firm could pose to financial stability.

All of the documents outlining the standards and criteria on which FSOC has made determinations are publicly available at www.fsoc.gov. The documents, available under the 'Designations' page of the site, include the bases for each of the Council's determinations; the Council's final rule and interpretive guidance, published in 2012; and the supplemental procedures, approved in 2015. A set of frequently asked questions about the process is also available on that page.

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Questions for the Record Submission from Representative Rothfus

Question 1:

In a November 2011 Presidential Memorandum to all the agency heads, and again in an August 2012 OMB Circular (M-12-18) to the same group, President Obama made clear his expectation about records management practices. In fact, in the OMB directive, Secretaries were told that "records are the foundation of open government, supporting the principles of transparency, participation, and collaboration.... Records protect the rights and interest of people, and hold officials accountable for their actions. Permanent records document our nation's history."

- a. As the President's Chief of Staff during that time, what was your expectation of agencies when issuing this Presidential Memorandum and OMB Directive?
- b. Does the exclusive use of a private email system, including use of a private server, by a Secretary meet the standard of transparency and accountability set forth in this Directive? How does a private system, including use of a private server, protect the rights and interests of people and create permanent records to document our nation's history?
- c. What did the White House do to make sure that its Cabinet was complying with these Directives?
- d. Is it your understanding that the federal government is the owner of these types of federal email records and documents; and therefore, agencies should work with the Archivist to determine those email records that should be preserved – rather than the individual having control of the records on a separate system and arbitrarily deciding which records to give back?

Question 2:

Were you aware of the extent of former Secretary of State Hillary Clinton's private email system – that all of our foreign diplomacy was being conducted on a private email system?

- a. As a government official, was it your expectation that when you started as Chief of Staff, or even as the Secretary of the Treasury, your emails containing official business belonged to you personally? Or, do you believe they belong to the federal government and the American people? Is it for employees to decide what a federal record is? Or, is it for the agency and the Archivist to decide?
- b. Who within the White House made the determination as to what email and documents should be kept? Do you recall the process for onboarding new employees and the process for departing employees, including archiving email? What is the process at the Department of Treasury?
- c. What was the White House's policy for using a private email system? Would you have allowed your staff to use a private email system, including private server, for the purposes of conducting official business?

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Question 3:

Have you or your staff ever emailed the Secretary or her senior staff? Did you believe at the time that your emails to and from the Secretary were being captured on a State Department server and not a private email system? How do you reconcile public officials using private systems?

Question 4:

At the hearing, I asked you: "Did you ever receive an e-mail from Sec. Clinton to a non-State Dept. email account?" You responded that "I would have to go back" to check. Have you followed through with that commitment and checked your records? If so, please answer the question. If not, when can we expect to have your answer?

Question 5:

You were White House Chief of Staff at the time the Benghazi Terrorist Attack was occurring on September 11, 2012. Did you email the Secretary or any of her senior staff during August or September of that year? Were those emails contained in the Secretary's production to the State Department? Did the President email the Secretary or any of her senior staff during that time period? If you did email the Secretary, were those emails produced to the Select Committee?

Answer (to questions 1 – 5):

Secretary Lew has been committed to complying with applicable record-keeping policies throughout his time in government. It is our understanding that the State Department and the White House have been providing information about their records management policies and practices, and we defer here to the State Department and the White House. Treasury policy is that employees should conduct official business through their official Treasury email accounts. The policy recognizes that there are situations in which an employee must use a personal email account for work purposes. In those circumstances, the employee must ensure that federal records are preserved. Secretary Lew complies with Treasury's policies regarding email use. He has a government email account, and he conducts official Treasury business on government email.

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Questions for the Record Submission from Representative Royce

Question 1:

Reliable and accurate data is essential to the Financial Stability Oversight Council’s task of identifying and monitoring risk to the stability of our financial system. Towards this end, a system of Legal Entity Identifiers (“LEIs”) is being developed, which the Office of Financial Research originally proposed in 2010. Can you update me on the progress that FSOC members are making in embracing this foundational tool for identifying risk, and which members have actually adopted or implemented LEIs? In addition, have you considered proposing to the OECD that they should provide for the use of LEIs as part of the Common Reporting Standard (CRS)? What is your view on the likeliness of U.S. regulators – beyond the limited SEC and CFTC mandates for swaps reporting – mandating the use of LEIs in the near future? When might this happen? And if not, why not?

Answer:

U.S. regulators are increasingly encouraging or requiring use of the LEI, with many agencies evaluating the use of LEI in the rulemaking process and more regulatory reporting forms are requiring the use of the LEI. Agencies and organizations that have incorporated the LEI in proposed or final rules includes the Board of Governors of the Federal Reserve System, Commodity Futures Trading Commission, Consumer Financial Protection Bureau, Department of Housing and Urban Development, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Municipal Securities Rulemaking Board, National Association of Insurance Commissioners, Office of the Comptroller of the Currency, Treasury Department, and Securities and Exchange Commission. In its 2015 Annual Report, the Financial Stability Oversight Council recommends that members and member agencies continue moving to adopt the LEI in reporting requirements and rulemakings, where appropriate.

Question 2:

With regard to the historic U.S. leadership role in the global financial system, you have a mandate and obligation under Section 112 of the Dodd Frank Act, in your role as FSOC Chairman, to report to Congress and the public on efforts: “To enhance the integrity, efficiency, competitiveness, and stability of financial markets.” Yet, past FSOC annual reports are silent on any recommendations to strengthen the efficiency and competitiveness of US markets. Please tell me what specific, concrete steps we need to take as a government to ensure the continued competitiveness and efficiency of U.S. financial markets.

Answer:

Efficient and competitive financial markets result from a strong and stable financial system, and the FSOC’s annual report recommendations are designed to promote all of these outcomes. Our

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financial system is safer and stronger because of our forceful crisis response and subsequent reforms, and implementation of financial reforms is striking the right balance between shaping a financial system that is safer and more resilient and one that is innovative and dynamic. FSO’s focus on financial stability mitigates potential risks that could negatively affect the economy. And U.S. regulators participate actively in international efforts to safeguard the U.S. financial system from threats resulting from weaker regulation abroad, and to promote a level playing field for U.S. firms that operate internationally.

Question 3:

In your testimony, you noted that, “[t]here’s no plan to just import European standards” in representing the United States in the IAIS process to create global Insurance Capital Standards (ICS). Please describe Treasury’s position on the following key elements of the ICS:

- a. **Accounting standards – U.S. insurers use GAAP and statutory accounting; the IAIS has been pushing for an IFRS-centric accounting standard. How will Treasury advocate for a resolution of this issue so that the U.S. marketplace and U.S. participants in the global market are not disadvantaged?**
- b. **Role of capital – The European regulators have a “going concern” orientation when assessing appropriate insurance capital. Do you view this approach as compatible with U.S. regulation? Can you describe the position Treasury plans to advocate as it relates to capital regulation?**
- c. **Timeline – The IAIS continues to state publicly that it adheres to the 2016 deadline for the final ICS. This would mean that the ICS would be conceived, developed, and finalized in under four years. Does the Treasury Department believe that 2016 is a responsible deadline for the conclusion of the global ICS? If not, what steps will Treasury be taking to ensure that adequate time is given to develop a workable ICS?**

Answer:

FIO leads the international effort at the IAIS to develop a “GAAP with adjustments” valuation approach, a concept that is endorsed by the other U.S. IAIS members. This valuation approach would allow U.S. firms to use their existing accounting basis – U.S. GAAP or, in the case of mutual insurers that do not prepare GAAP statements, statutory accounting principles – as the basis for determination of the group-wide capital requirement. Adjustments would be made to these existing accounting standards in order to enhance comparability across jurisdictions. This approach was included in the ICS consultation document and will be subject to field testing and analysis by the IAIS in 2015 and in future years.

Treasury supports the development of international capital standards for IAIGs that would best promote global financial stability, consistency in the supervision of IAIGs, and promote a level playing field among the IAIGs if they are based on insurance business models and risk metrics.

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As publicly described in March 2015, IAIS members agreed on the “ultimate goal” of the ICS which provides a focal point, a guiding light, for the technical work that is underway. IAIS members agreed:

The ultimate goal of a single ICS will include a common methodology by which an ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions. Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS toward the ultimate goal. Not prejudging the substance, the key elements include valuation, capital resources and capital requirements.³

As technical experts from the United States and around the world sort through the many complexities of the key elements, the “ultimate goal” provides the boundaries to shape and influence those conversations and the day-to-day developments.

Given the enormous amount of technical work and the magnitude of the global differences, achieving this “ultimate goal” will not happen quickly. In the near term, building upon data, analysis and testing, progress will be made and convergence will improve. Importantly, work will proceed incrementally toward milestones that are realistic, achievable, and that are fact-driven and consensus-driven.

³ The ultimate goal of the ICS can be found in the IAIS’s March 2015 Newsletter and can be found at <http://iaisweb.org/index.cfm?event=getPage&persistId=47DFD3A5155D896B001B1CB99C644F78>.

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Questions for the Record Submission from Representative Sinema

Question 1:

I understand that Treasury, in coordination with the Federal Reserve, has had extensive engagement through the Financial Stability Board (FSB) on developing capital rules for insurance companies through the International Association of Insurance Supervisors (IAIS). Is Treasury looking at any analysis in terms of the impact of IAIS standards on the U.S. domestic insurance regulatory regime?

Answer:

The work on a comprehensive supervisory framework for internationally active insurance groups (IAIGs) has been ongoing at the IAIS since 2009 and is shaped by the input of the U.S. federal and state participants. While the FSB monitors this work, the insurance experts at the IAIS develop standards for that sector. As part of these discussions, Treasury agrees that any capital standards for insurers should be based on insurance business models and risk metrics. In addition, prior to implementation, the international capital standards will be tested directly with U.S.-based insurers and, more broadly, on the marketplace. The testing and the study will allow for the implementation of international standards that account for the impact in the United States.

Question 2:

Recognizing that top-tier holding companies that were insurance companies themselves are different than shell-holding companies that could carry out a broad range of financial activities outside of the regulated insurance umbrella (AIG is a good example of the latter), do you believe that U.S. top-tier insurance holding companies are adequately regulated by the current state regulators?

Answer:

The global financial crisis demonstrated that insurers, many of which are large, complex, and global in reach, are integrated into the broader U.S. financial system and that insurers operating within a group may engage in practices that can cause or transmit severe distress to and through the financial system. In the absence of direct federal authority over an insurance group holding company, states should continue to develop approaches to group supervision and address the shortcomings of solo entity supervision. While states do have direct authority over the primary activities in the business of insurance, many firms do engage in a variety of unrelated activities. Supervision should be proportional to the complexity, size and nature of a firm's activities.

Question 3:

Is the Treasury and the Federal Reserve pushing the IAIS to delay the adoption of an insurance capital standard? Could this process be made more deliberative with the opportunity for a more thorough and public analysis? What can we do to make this a

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more deliberative process? Is there anything you can do in your capacity as a U.S. participant in the FSB and IAIS?

Answer:

As publicly described in March 2015, IAIS members agreed on the "ultimate goal" of the ICS which provides a focal point, a guiding light, for the technical work that is underway. IAIS members agreed:

The ultimate goal of a single ICS will include a common methodology by which an ICS achieves comparable, i.e. substantially the same, outcomes across jurisdictions. Ongoing work is intended to lead to improved convergence over time on the key elements of the ICS toward the ultimate goal. Not prejudging the substance, the key elements include valuation, capital resources and capital requirements.⁴

As technical experts from the United States and around the world sort through the many complexities of the key elements, the "ultimate goal" provides the boundaries to shape and influence those conversations and the day-to-day developments.

Given the enormous amount of technical work and the magnitude of the global differences, achieving this "ultimate goal" will not happen quickly. In the near term, building upon data, analysis and testing, progress will be made and convergence will improve. Importantly, work will proceed incrementally toward milestones that are realistic, achievable, and that are fact-driven and consensus-driven.

⁴ The ultimate goal of the ICS can be found in the IAIS's March 2015 Newsletter and can be found at <http://iaisweb.org/index.cfm?event=getPage&persistId=47DFD3A5155D896B001B1CB99C644F78>.

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Questions for the Record Submission from Representative Stivers

Question 1:

Has the Treasury Department conducted analysis of the potential impacts of IAIS standards on domestic insurance industries, policyholders, and customers? If so, what conclusions has the Treasury Department reached as a result of any such analysis?

Answer:

The work on a comprehensive supervisory framework for internationally active insurance groups (IAIGs) has been ongoing since 2009 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 insurance business models and risk metrics. In addition, prior to implementation, the international capital standards will be tested directly with U.S.-based insurers and, more broadly, on the marketplace. The testing and the study will allow for the implementation of international standards that account for the impact in the United States.

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Questions for the Record Submission from Representative Stutzman

Question 1:

Approximately how many parties doing business with the Islamic State have we identified? Please provide a quantitative and qualitative summary of those businesses and identify which other countries in the Middle East helped us identify them. Please describe the actions we have taken against those parties, as well as the outcome of those actions. Where possible, please provide information in a way that can be shared with my constituents.

Answer:

Treasury actively uses its counterterrorism authorities to disrupt the financial activities and external funding networks of the Islamic State of Iraq and the Levant (ISIL), which were also effective against ISIL's predecessor, al-Qa'ida in Iraq (AQI). On September 24, 2014 Treasury sanctioned ISIL foreign terrorist facilitators Tarkhan Tayumurazovich Batirashvili and Tariq Bin-Al-Tahar Bin Al Falih Al-'Awni Al-Harzi and State sanctioned Amru al-Absi, Salim Benghalem, and Lavdrim Muhaxheri for their affiliation with ISIL. Also in the past year, Treasury sanctioned 'Abd Al-Rahman Mustafa Al-Qaduli, a senior ISIL official and, 'Abd al-Rahman Khalaf 'Ubayd Juday' al-'Anizi, an ISIL financier and facilitator. In February, the State Department designated Denis Cuspert, a foreign terrorist fighter and operative for ISIL. In addition, since 2003, the U.S. government has sanctioned more than 30 individuals associated with AQI, the predecessor of ISIL.

Identifying these specific individuals and entities that have provided material support to ISIL has disrupted their access to the U.S. and international financial system. While we cannot comment on ongoing investigations, Treasury maintains an aggressive enforcement posture and is working closely with the Intelligence Community (IC), European Union, and Middle East partners to include Iraq, Jordan, Lebanon, and Turkey, to identify and take action against additional individuals and entities that provide material support to, or conduct business with, ISIL. Where credible information from the IC or our partners on parties doing business with ISIL exists, we will not hesitate to take aggressive action.

Question 2:

Please provide a summary of assets seized or frozen as result of transactions involving the Islamic State. Has the rate of seizure or stopped transactions increased or decreased since Treasury last discussed this issue with our Committee in November 2014? Has the proportion of your time and Treasury resources spent on terrorist financing relative to your other duties and the Department's other responsibilities increased or decreased since then?

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Answer:

Treasury submits a report to Congress on terrorist assets (the Terrorist Assets Report, or “TAR”) on an annual basis. In that report, Treasury provides a summary of blocked funds in the United States relating to persons designated under counterterrorism sanctions authorities. While the 2014 TAR was recently delivered to Congress, it does not include specific information on assets blocked in the United States of the Islamic State of Iraq and the Levant (ISIL) because of ISIL’s limited reliance on and exposure to the U.S. financial system results in no assets having been found within U.S. jurisdiction

However, blocked assets are just one facet of our sanctions. Designations can significantly disrupt a person’s ability to continue illicit activities—even if the person holds no assets in the United States. Sanctions make it harder for ISIL to engage in commercial and financial activities, and also clearly identify for the international community—including the many foreign financial institutions that voluntarily use OFAC’s List of Specially Designated Nationals and Blocked Persons—the specific individuals and entities tied to ISIL.

Treasury plays a leading role in the U.S. Government’s strategy to degrade, dismantle, and ultimately defeat ISIL, and has increased resources in manpower and time devoted to countering ISIL’s financial activities. Treasury will continue to prioritize its resources to the fight against ISIL in a manner that reflects the significance of the threat that ISIL poses.

