

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

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HEARING  
BEFORE THE  
COMMITTEE ON FINANCIAL SERVICES  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED FIFTEENTH CONGRESS  
SECOND SESSION

—————  
JULY 12, 2018  
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Printed for the use of the Committee on Financial Services

**Serial No. 115–107**



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U.S. GOVERNMENT PUBLISHING OFFICE

31–506 PDF

WASHINGTON : 2018

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**Thursday, July 12, 2018**

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

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Jeb Hensarling [chairman of the committee] presiding.

Present: Representatives Hensarling, Royce, Lucas, Pearce, Luetkemeyer, Huizenga, Hultgren, Ross, Pittenger, Wagner, Barr, Rothfus, Tipton, Williams, Poliquin, Love, Hill, Emmer, Zeldin, Trott, Loudermilk, MacArthur. Davidson, Budd, Tenney, Hollingsworth, Waters, Maloney, Velazquez, Sherman, Meeks, Clay, Lynch, Scott, Green, Cleaver, Moore, Himes, Foster, Kildee, Delaney, Sinema, Beatty, Heck, Vargas, Gottheimer, Crist, and Kihuen.

Chairman HENSARLING. The committee will come to order.

Without objection, the Chair is authorized to declare recess of the committee at any time, and all members will have five legislative days within which to submit extraneous materials to the Chair for inclusion in the record.

This hearing is entitled, "The Annual Testimony of the Secretary of the Treasury on the state of the International Finance System." I now recognize myself for 5 minutes to give an opening statement.

Whether you are looking at unemployment, disposable family income, GDP (Gross Domestic Product), small-business optimism, you name it, it is clear that many, if not most, Americans are enjoying the very best economy of their entire lifetimes. And no man is more responsible than President Donald Trump.

However, if we find ourselves mired in a full-fledged global trade war with no end in sight, all of the economic gains he has helped bring us may well be lost.

I have heard the President boldly call for the elimination of global tariffs. I enthusiastically applaud the President for doing so. However, I also continue to hear talk from the Administration of, quote, "ending trade deficits," and, quote, "imposing reciprocal trade policies." These are not identical goals to reducing trade barriers. For example, we could end trade deficits tomorrow by simply outlawing trade and then watch as GDP and disposable family income plummet.

With respect to reciprocal trade agreements, just because other nations punish their consumers with tariffs, doesn't mean we should necessarily follow suit, because at the end of the day, a tariff is a tax, a tax that is usually passed on to the consumer. So, for the example, when the Administration first announced their tariffs on steel, aluminum, and washing machines earlier this year, it became more expensive for working Americans to share a six-pack with their friends at the local laundromat.

As of last Friday, when the Administration announced \$34 billion in tariffs on an array of Chinese goods including auto parts, it also became more expensive to work on your car in the same laundromat parking lot. And now with an additional \$200 billion in tariffs announced, who knows whether the laundromat will even be here at year's end.

As my constituent Chris in Mesquite, Texas, wrote me about tariffs, quote, "I am now facing increased cost in auto parts and housing," it can't get any closer to home than that. Not only do tariffs harm American consumers, they harm many American employers and their American workers as well, since over half of our imports are intermediate components or raw materials for American businesses.

As my constituent Elizabeth from Dallas wrote me, quote, "I am a metal manufacturer. Since the tariff talks began in February, I have seen major increases, well over 25 percent from steel vendors and the mills. Soon my end users won't be able to afford the cost of our products. I may have to actually lay off workers," end quote. This is the voice of one American business, but she undoubtedly speaks for many.

Tariffs can also damage entire industries, including strategic ones like our domestic energy industry. For most of my life, America has been energy dependent. Now we are on the cusp of producing more oil than any country in the world, but the oil and gas industry imports specialty steel and aluminum for pipelines, wells, and other infrastructures. The tariffs may just harm our ability to remain energy independent.

And I have yet to speak of the retaliatory tariffs of the E.U., Canada, Mexico, and China. Needless to say, it is a bad time to be an American SUV producer or an American soybean farmer.

The soybean prices have dropped to their lowest level in almost a decade. One farmer said about his family farm, quote, "That is \$100,000 that has disappeared into thin air. We were already in the red, now it is even worse," unquote.

We have known since the days of Adam Smith and David Ricardo that trade is a win-win situation; no trade, in contrast, is a lose-lose situation.

I understand that our trading partners have more to lose than we do because their economies are far more export-dependent, but losing less is not the same as winning more.

When the dust finally settles, the Administration's trade policy may prove to be brilliant. I hope so. With patience, short-term pain may pay off in long-term gain if tariff and non-tariff trade barriers are actually reduced. But in the meantime, capEx check books are closing and expansion plans are being put on hold as growing un-

certainty creeps throughout our economy. So I hope it is time that we get on with it.

I would respectfully call upon the Administration to concentrate time, resources, diplomacy on those nations that consistently violate WTO guidelines, enforce involuntary I.P. and technology transfers. In other words, it is the moment we should be uniting with our traditional allies to confront China.

I would also call upon the Administration to drop any effort to unilaterally impose auto tariffs under Section 232. The 11-year-old Honda Accord I drove to work today in, simply does not threaten national security, nor does any other imported vehicle. I fear further efforts in this regard are counterproductive and will simply undermine the Administration's credibility.

I do wish, though, to compliment the President, and Secretary Mnuchin, for working with Congress on vital CFIUS (Committee on Foreign Investment in the United States) reform. Thanks to the leadership of Mr. Pittenger, Mr. Heck, Mr. Barr, and the Ranking Member, the House's bill was passed 400 to 2, and we look forward to going to conference with the Senate.

This shows how the Administration and Congress and both parties can work together on shared trade goals. The Administration should continue to work collaboratively with Congress on trade, and yesterday's Senate 88 to 11 vote is indicative of its importance.

I now yield 3 minutes to the Ranking Member for an opening statement.

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

I am looking forward to hearing Secretary Mnuchin's testimony today on the state of the international financial system.

I must admit that I was surprised to learn that the Trump Administration had agreed to back a \$13 billion capital increase for the World Bank and the IFC; that is the International Monetary Fund (IMF). This positive step is a notable departure from the Trump Administration's unprecedented and harmful approach to multilateral agreement.

However, it would be a serious mistake for the World Bank to take my support for this capital increase for granted. I am extremely concerned about the bank's recent recommendations in its upcoming World Development Report for the wide-scale dismantling of regulations protecting workers, including lower minimum wages and greater firing powers, particularly in developing countries. The World Bank should not be rewriting the social compact to recast the balance of power between labor and capital.

This will lead to greater inequality and undermine social cohesion and, ultimately, harm the bank's legitimacy and relevance in the fight against global poverty. That said Mr. Chairman, while I do appreciate the Administration's support of the World Bank, I am very concerned about the actions this Administration has taken in many other areas that fall into the purview of the Treasury Secretary.

As we meet here today, the Trump Administration is waging a trade war that will have wide-ranging economic consequences. Last week, Mid-Continental Nail, America's largest nail manufacturer, laid off 60 workers and announced that the whole company would go out of business by Labor Day.

Volvo no longer plans to hire 4,000 workers in South Carolina. The U.S. Chamber of Commerce is warning that 2.6 million jobs are at risk. Hard-working Americans are already suffering as a result of the retaliatory tariffs provoked by the ensuing economic uncertainty caused by this President.

And moreover, this trade war comes at a time when our deficit has bloomed due to the Republican tax law, which has been nothing more than a giveaway to very wealthy individuals, Wall Street banks, and big corporations.

I look forward to hearing Secretary Mnuchin address the adverse impact this Administration's policies are having and will have on small businesses and consumers, and I yield back the balance of my time.

Chairman HENSARLING. Gentledady yields back, the Chair now recognizes the gentledady from Wisconsin, Ms. Moore, Ranking Member of the Monetary Policy and Trade Subcommittee for 2 minutes.

Ms. MOORE. Thank you so much Mr. Chairman, and I want to welcome Secretary Mnuchin back to the committee. I appreciate your reply to my letter that I sent on May 17th, you replied just recently. The letter was related to the transfer of the Universal Service Fund (USF) to the Department of Treasury.

So I look forward to your testimony, but during the Q&A, we have already alerted your staff so that you could be prepared for my questions. There are outstanding issues surrounding the Universal Service Fund that are important to both my urban constituents and rural constituents of many of my Republican colleagues here who really rely on these services.

Like the Rural Healthcare Program, the Connect America Fund, and in my district, there are over 50,000 households that subscribe to the Lifeline, just one of the programs that is supported. It connects disabled people, poor people with jobs and with health care assets.

I am going to appreciate hearing a detailed explanation of the regulations, resources, and staff you have put in place to ensure that the FCC continues to use these funds to provide telecommunications access to Americans, and assurance from you that these services will not be disrupted.

The specific funds that you deposited into the Treasury account and the funds that you are still waiting to be transferred, that you referred to in your letter, and how you plan to make up for the loss of interest that the funds were in interest-bearing accounts in a private sector when they were there and how you will make up the deficit so there won't be any lapse in ability to serve those constituents.

And so I look forward to your testimony, Mr. Secretary, and I yield back the plethora of time that I have.

Chairman HENSARLING. Gentledady yields back. Today we welcome back to the committee, for his third appearance, the honorable Steven Mnuchin, Secretary of the U.S. Department of Treasury. Secretary Mnuchin has previously testified before this committee, and so because of that, I believe he needs no further introduction.



Without objection, the witness' written statement will be made part of the committee record. Secretary Mnuchin, welcome again and you are now recognized to give an oral presentation of your testimony. Thank you.

**STATEMENT OF HON. STEVEN T. MNUCHIN**

Secretary MNUCHIN. Thank you.

Chairman Hensarling, Ranking Member Waters, and members of the committee, it is good to be here with you today to discuss the National Advisory Council (NAC) on International, Monetary, and Financial Policies Report to Congress and other priorities of the Treasury Department.

The NAC Report highlights international financial institutions (IFIs) roles in encouraging global macroeconomic growth and financial stability, advancing U.S. national security priorities, supporting the development of markets for U.S. business and working to alleviate poverty.

The Treasury has promoted reforms at the IFI's to help them better contribute to these objectives, and we will continue our efforts to increase the IFI's effectiveness and value to taxpayers. I would like to note that the International Monetary Fund's periodic review of quotas is scheduled to be concluded next year.

Every 5 years, the fund reviews its financial resources and decides whether to increase them. At this time, the United States finds that the IMF's overall resources are adequate following the 2016 implementation of the 2010 quota and governance reforms.

I also want to highlight the strength of the U.S. economy. We continue to implement President Trump's economic agenda focused on tax cuts, regulatory reform, and trade. In only 6 months since the Tax Cuts and Jobs Act, Americans are seeing faster GDP growth, more money in their paychecks and better career opportunities.

Unemployment numbers are historically low, with an average of over 200,000 jobs added each month of the second quarter this year. Over 500 companies have announced bonuses, wage increases, and enhanced benefits. The National Federation of Independent Business, the National Association of Manufacturers, and the Consumer Confidence Index are all at reporting level records of optimism.

Americans are keeping more of their hard-earned money and U.S. business is more competitive. Our efforts to eliminate unnecessary burdensome regulations are also having a tremendous impact. We have worked closely with this committee and others in Congress, as well as our colleagues across the Administration, to create a regulatory environment that is more efficient and predictable for business.

These reforms are enhancing the flow of credit and supporting job creation and wage growth. At the same time, we remain committed to ensuring the stability of the financial system and protecting taxpayers and consumers.

Our tax and regulatory reform agenda compliments our trade efforts. We strongly support Congress' bipartisan effort to strengthen and modernize the commodity on foreign investment in the United

States CFIUS review process and its inclusion in the National Defense Authorization Act.

The Administration is pleased to work with members to maintain our open investment environment, while ensuring that certain transactions are reviewed for national security purposes. We have made great progress in the last 18 months in implementing the President's agenda.

We are working every day to guide multilateral financial organizations toward a limited role that is more consistent with free markets, faster growth, and U.S. national interests. Hardworking taxpayers across the country are optimistic that they will have a more prosperous and secure future, and we are seeing America's great potential come to fruition.

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

[The prepared statement of Secretary Mnuchin can be found on page 56 of the appendix.]

Chairman HENSARLING. Thank you, Mr. Secretary.

I will now yield to myself for questioning.

Clearly, as you heard from my opening remarks, I am most concerned about the status of global trade. And I realize that most of this was within the bailiwick of USTR and Commerce, but clearly America's trade policies do have an impact on the international finance system.

So again, as I said, I have been heartened by comments by the President and by Secretary Ross that our goal appears to be to eliminate, or at least significantly reduce, trade barriers, but I am concerned because in the one trade agreement that has been modified since the Administration began its policy, Korea, what I think I saw in the Korean agreement is the imposition of a quota on Korea and steel exports to the U.S. and a 20-year extension of a 25 percent tariff on Korean trucks.

So I would hope that the answer and the goal would be for America to export more, not necessarily import less. And so the question, Mr. Secretary is, is Korea the template for future modifications of our bilateral or multilateral trade agreements?

Secretary MNUCHIN. Mr. Chairman, thank you very much.

And I have had the opportunity to work very closely with Ambassador Lighthizer and Secretary Ross and others in the Administration with the President. The President is very focused on free and fair trade, as you mentioned.

At the G-7, the President specifically said, let us sign a free-trade agreement with no tariffs, no barriers, no subsidies. So the President is very much focused fighting every day on having free and fair trade.

In regards to your question, there is no specific model for other agreements. We are very focused on NAFTA (North American Free Trade Agreement) and renegotiating that.

Chairman HENSARLING. I will just say again, Mr. Secretary, I appreciate the words, but I am concerned about the deeds as I look at how the Korean trade agreement has been modified.

Mr. Secretary, I also want to speak again—I could not say it more clearly—that many Americans are seeing an economic miracle and it is because of the President and, frankly, the work you

have done and others on tax cut, increased jobs, rightsizing regulation. But I think the greatest economic stimulus I have seen is business optimism. And unfortunately my fear is that may be receding.

I am not sure if you are familiar, CNBC does a survey of CFOs of major U.S. companies, and 65 percent have reported that they fear U.S. trade policy will negatively impact their firms over the next 6 months.

It's been reported as of July 6th that the FOMC's (Federal Open Market Committee) minutes of the June meeting had this in it. Quote, "Most FOMC participants noted that uncertainty and risk associated with trade policy had intensified and were concerned that such uncertainty and risk eventually could have negative effects on business sentiment and investment spending."

So I am just curious, Mr. Secretary, how does the Administration think about business uncertainty as it calculates its trade policy?

Secretary MNUCHIN. Mr. Chairman, I can assure you that the President is very focused on economic growth, and I can also assure you that I am monitoring the situation very carefully.

I am not familiar with that specific poll, but I speak on a regular basis to many industries as well as people within the Administration, and we are monitoring the economic situation.

We have not yet seen any negative impact, although as you have said, we are monitoring carefully the impact on uncertainty on investments.

Chairman HENSARLING. Mr. Secretary, even as of today, the actual tariffs are a small part of our global trade, but that is soon to change if the \$200 billion that has now been threatened against China actually comes to be in 60 days.

I guess the last question I would have, Mr. Secretary, is I am curious how the Administration thinks about the possibility of a global recession. In the U.S. we are facing rising interest rates, the Fed needs to have an orderly wind down of its balance sheet.

You know better than others that we may be looking at an inverted yield curve that at least historically has been a leading indicator of the recession. We know about tightening monetary policy in other segments.

So there is already a threat to economic growth. How do you factor that in, again, to the Administration's trade policy? What is the risk?

Secretary MNUCHIN. Mr. Chairman, let me just comment specifically on the—we don't have an inverted yield curve, there is a flattening of the yield curve that somewhat reflects people's future view of rates and where rates will be.

I don't think that is indicative of any way of recessionary concerns. And as I said, we are monitoring very carefully the impact of tariffs and we will continue to do so and we are very focused on economic growth and look forward to what hopefully will be a very big quarter of GDP and future growth for the balance of the year and next year.

Chairman HENSARLING. The time is expired, I now recognize the Ranking Member for 5 minutes.

Ms. WATERS. Thank you very much. Mr. Secretary, because of this President's trade war, again, Mid-Continental Nail that I men-

tioned in my opening statement, America's largest nail manufacturer based in Missouri, laid off 60 workers last week and expects to go out of business by Labor Day.

Harley Davidson, this company is as American as motherhood and apple pie, based in Wisconsin, is moving jobs overseas to Europe to avoid tariffs on its exports. Volvo, again, will no longer hire 4,000 new workers in South Carolina and the U.S. Chamber of Commerce warns that 2.6 million jobs are on the chopping block because of Trump's policy on tariffs.

On top of all the job loss, American families will pay higher prices for the goods that they buy since tariffs are a tax paid by Americans. And it seems things are only going to get worse. Just yesterday, Trump announced that he may levy an additional \$200 billion in tariffs on China.

China responded that it would take further retaliatory measures, possibly including more tariffs on U.S. goods, letting its currency depreciate or even selling off billions of treasury bonds.

The Trump Administration appears to be flying by the seat of its pants with no plan for how to address the possibility of a recession, the higher prices consumers will pay and the resulting losses of millions of American jobs.

Further, reports indicate that while the Federal Reserve is concerned about the possibility of a recession resulting from a trade war, it does not have the tools necessary to combat such a self-inflicted disaster.

As each day brings another announcement of jobs being eliminated or shipped overseas and consumers paying more for goods, what are you doing as Treasury Secretary to prevent further harm to our economy from the growing trade war?

I know that you have attempted to answer this when the chairman questioned you about it, but I want to hear more in depth about how you are thinking about this and what you plan to do if there is further harm to our economy.

Secretary MNUCHIN. Thank you very much. First of all, I have noted the nail company and I will reach out to the Secretary of Commerce to see if that company is subject to some type of exemption, because obviously we don't want companies losing jobs.

As it relates to Harley Davidson, I have previously publicly commented on this, I think the President has been a huge advocate of Harley Davidson. I think it is unfortunate that they are talking about moving jobs. My sense is that this was before tariffs.

I will comment specifically on China, because I personally have been very involved in China. I have had multiple negotiations with them. Our objective is to create a level playing field for our companies to stop force technology transfer. We put a modest amount of tariffs on China as a result of technology transfers, China reciprocated.

Our tariffs were less than 10 percent of what they shipped, they matched that dollar for dollar, and the President threatened if they did that, that he would retaliate, and we are now in a comment period on the \$200 billion.

And again, I would just assure you, we are monitoring the impact on the economy of all these different issues.

Ms. WATERS. I want to thank you for that. But I want to get back to Harley Davidson, because this is something that the American public really understands. They understand that Harley Davidson is a company that we would not like to see export overseas.

So you mumble that the tariffs had nothing to do with them exporting jobs overseas. What did you just say?

Secretary MNUCHIN. So first of all, let me apologize if I mumbled. I will try to be clearer. First of all, in all fairness, I have not spoken to the Harley Davidson people direct. I know that the President has spoken to them.

I can tell you, as I have sat in meetings with the President, other leaders, he always talked about tariffs on motorcycles and cutting tariffs on motorcycles. My sense is that Harley Davidson had previously planned on moving some of this manufacturing, and it is not just a result.

In all fairness, I have not spoken to them direct. I share your concern very much of any jobs being moved by Harley Davidson or other people as a result of tariffs.

Ms. WATERS. What will you do to try and get them not to move the jobs overseas?

Secretary MNUCHIN. I am going to specifically reach out to them and find out the details with the Secretary of Commerce.

Ms. WATERS. And are you saying the President's tariffs have nothing to do with them moving those jobs overseas?

Secretary MNUCHIN. I have not spoken to them direct, so I—

Ms. WATERS. Have you spoken to the President?

Secretary MNUCHIN. Yes I have, I—

Ms. WATERS. And what did he say?

Secretary MNUCHIN. Again, he President has been a huge advocate of Harley Davidson, and is very disappointed on Harley Davidson's—

Ms. WATERS. Did he ask them to stay?

Secretary MNUCHIN. Yes, he did.

Ms. WATERS. And they turned him down?

Secretary MNUCHIN. No, I—they asked them afterwards, and I don't know the status of those—

Ms. WATERS. Thank you, I yield back the balance of my time.

Chairman HENSARLING. The gentlelady yields back.

The Chair now recognizes the gentleman from Kentucky, Mr. Barr, chairman of our Monetary Policy and Trade Subcommittee.

Mr. BARR. Mr. Secretary, I certainly support the Administration's objectives to promote fair and reciprocal trades, but since we are on the topic, I will stick with the topic for a little while.

I do appreciate your testimony that you and the Administration continue to monitor the impact of tariffs, but I do have concerns the tariffs and retaliatory measures on American industries could very well suppress or even reverse the record level of growth and job creation we have seen under your leadership and the President's leadership and in the booming economy.

As we have discussed, my home State of Kentucky's signature bourbon and distilled spirits industry accounted for more than \$450 million in exports worldwide in 2017. Of that, nearly \$200 million was exported to E.U. countries where the market for bourbon has been growing at record levels in recent years. An extended trade

war would not only harm that iconic industry but also Kentucky's farm family suppliers, tourism, and ultimately consumers through higher prices and limited availability.

Similarly, our companies and workers in the auto industry are facing steep international competition for jobs, sales, and innovation that has been intensified by the ongoing tariffs. Toyota's 30-year-old plant in my district in Georgetown, Kentucky, is Toyota's largest manufacturing plant globally. It employs more than 8,000 team members that produce more than 550,000 vehicles and 650,000 engines last year. Toyota has told us that the tariffs have negatively impacted their supply chain.

For example, the price of rolled steel is up 40 percent and the current price increase for engine and transmission parts is closer to 20 percent. I know that you, Mr. Secretary, and the President fully appreciate that neither Toyota Camrys nor bourbon implicate national security. But I do want to ask you, does the Administration have plans to mitigate the negative impact of retaliatory tariffs in ongoing trade negotiations that it has on American jobs and industries?

Secretary MNUCHIN. First of all, I appreciate the specifics and I am familiar with them. I think that you know the President is in Europe; he just concluded meetings yesterday with several European leaders and discussed trade, that was a very significant issue. There is a planned meeting with the E.U. later in the month. Again, we are very focused on the retaliatory measures and resolving them.

Mr. BARR. Thank you. And again, we do want to hear more about your plans to mitigate the negative impact that these retaliatory measures are taking, so please stay in touch with us on that.

Switching gears to North Korea really quickly. By all accounts the Singapore Summit was successful, but we are now hearing that North Korea is actually in the process of expanding its nuclear facilities despite the Summit and last week the North went on to criticize our quote, "gangster like calls, for nuclear disarmament."

I appreciate that this Administration is not making the same mistake as the JCPOA (Joint Comprehensive Plan of Action) in the upfront sanctions relief but I do want to ask you for some reassurance about us not taking the foot off of the sanctions pedal when we continue to hear this belligerent rhetoric from the North. And in answering that question, I just remind you that this committee produced the Otto Warmbier North Korea Nuclear Sanctions Act. That bill passed the House 415 to 2 and it's over in the Senate and that represents the toughest economic sanctions ever directed at North Korea. Can you use that legislation as leverage to continue to focus that maximum pressure as we continue to negotiate?

Secretary MNUCHIN. First of all let me just say there are no plans to loosen up on sanctions, if anything quite the contrary. The sanctions have been very effective. In regards to the legislation, we appreciate your efforts. We have tremendous tools at our disposal right now.

I am not going to comment on some of the specifics that you have said about what North Korea may or may not be doing. I can assure you I have the utmost confidence in Secretary Pompeo. I think there is nobody better to be leading this effort for the Administra-

tion. We speak regularly on the specific status and I would just say don't believe everything you read in the press.

Mr. BARR. Thank you. And finally on Iran, is the Administration on track to have sanctions fully re-imposed by the November deadline and what role do you see for Congress in the process of implementing sanctions with respect to the new policy toward Iran?

Secretary MNUCHIN. We are enforcing the maximum sanctions on Iran. They have been very effective. I have had many discussions with my European counterparts. There are few situations where we will have modest wind down periods and other things, but we expect compliance with the sanctions and we have made that very clear and many European companies have already done that.

Mr. BARR. Thank you.

Chairman HENSARLING. Time of the gentleman has expired. The Chair now recognizes the gentlelady from New York, Ms. Velazquez.

Ms. VELAZQUEZ. Thank you Mr. Chairman. Secretary Mnuchin, following the 2008 financial crisis, we learned that banks and mortgage companies engaged in deceptive marketing practices and provided fraudulent information to homebuyers in concerted efforts to disguise a mortgage's true cost to homebuyers. These dishonest practices fueled the subprime mortgage crisis which helped drive the broader financial crisis, which brought the world's financial system to the brink of collapse.

Just a few years ago, we also learned that Wells Fargo fraudulently opened more than three million customer accounts in order to inflate their cross-selling business and increase their bottom line.

Most recently, it has been reported that UBS executives both in Puerto Rico and here on the mainland purposely withheld and disguised the true risk of Puerto Rican government bonds that UBS packaged into mutual funds and sold to residents on the island, wiping out \$10 billion in retirement savings.

So, Mr. Secretary, my question to you is, in your role as both Treasury Secretary and Chair of FSOC (Financial Stability Oversight Council), do you believe that fraudulent and deceptive actions practiced by financial institutions could pose a threat to financial stability?

Secretary MNUCHIN. Thank you. I do not believe that they could pose a threat, at this point, to financial stability. Although I do acknowledge there are some very specific cases which the regulators are dealing with of improper practices.

Ms. VELAZQUEZ. Do you believe that fraudulent and deceptive financial practices should be criminally investigated and, if necessary, prosecuted by the Department of Justice (DOJ)?

Secretary MNUCHIN. It's not my role to comment on prosecution but definitely I believe that if there are rules broken or anything else, the regulators should be responsible for—

Ms. VELAZQUEZ. So we know that executives knowingly committed financial crimes or covered them up, they should do the time, don't you think?

Secretary MNUCHIN. I would just say my role in FSOC is to deal with the regulators. I am not commenting on—obviously its DOJ's responsibility to enforce the laws. That is not within my purview.

Ms. VELAZQUEZ. On Tuesday, President Trump imposed a second round of tariffs on the additional \$200 billion of Chinese goods. This led financial markets to tumble all day Wednesday. The Dow opened more than 100 points lower and continue to fall throughout the day, losing almost 200 points at the market close.

Mr. Secretary, media reports indicate that high level talks between Chinese officials and the Trump Administration on tariffs and trade have ground to a halt. Do you believe that talks will be reopened and do you plan to participate in those discussions?

Secretary MNUCHIN. Yes, I plan to participate. Second of all I would say, that the Chinese want to make serious efforts to make structural changes, I and the Administration are available any time to discuss those. As it relates to the \$200 billion, I would just comment that had been previously announced; all we did the other day was announce the list which is now out for public comment and review.

Ms. VELAZQUEZ. I yield back, Mr. Chairman.

Chairman HENSARLING. Gentlelady yields back.

The Chair now recognizes the gentleman from Missouri, Mr. Luetkemeyer, Chairman of our Financial Institutions Subcommittee.

Mr. LUETKEMEYER. Thank you, Mr. Chairman, and welcome, Mr. Mnuchin.

I will give you a little respite from the trade talk here, I have a couple other questions with regard to guidance, derisking, and harmonization. So with regard to guidance, over the years, a large amount of agency guidance, handbooks, and circulars have been issued. Almost none of it has been withdrawn or rescinded.

Almost none of it went through notice and comment rulemaking or was submitted to Congress pursuant to the Congressional Review Act. I recently sent a letter to the Federal Financial Regulators, asking them that they issue directives affirming that agency statements, including guidance, that haven't gone through the notice and comment rulemaking do not establish binding legal standards.

I have asked this question of Chairman Powell and Comptroller Otting, among others, so do you agree with your colleagues that guidance is guidance and rules are rules?

Secretary MNUCHIN. I do.

Mr. LUETKEMEYER. As Treasury Secretary and head of FSOC, would you consider such an affirmation be included on future guidance coming out of your department, agencies you oversee, and FSOC?

Secretary MNUCHIN. Again, I assure you that we will address this at the next FSOC meeting and discuss it; I don't think we need guidance coming out of FSOC, but we will review that with the regulator.

Mr. LUETKEMEYER. My hope would be, Mr. Secretary, that you would take the lead in having harmonization with all the agencies with regards to guidance and with the guidance that is issued. Whenever a guidance is issued, say something in there to the effect that this is guidance, it is not a rule, that guidance is something that punitive action can be taken on because it is guidance, it is



best practices, it is a suggestion of somehow how a bank should be doing something versus a rule that says, you will do this.

And I think it is important there be a distinction there and it is important that I think in your position, as head of FSOC, that you could take the lead in harmonizing all this across all the financial agencies, to be able to make this happen.

Secretary MNUCHIN. I have always believed there should be consistency across the regulators, so that is an issue we will address with them. Thank you.

Mr. LUETKEMEYER. OK, appreciate that very much.

With regard to derisking, 2 weeks ago Congressman Clay and I sent you a letter on derisking following a hearing that we held in the Financial Institutions Subcommittee. Our subcommittee has held several hearings on the issue and heard from a variety of stakeholders. What we have learned is that this is not only a domestic problem, but an international one.

We are talking about an entire geographical region losing access to financial services and being cut out the most regulated financial sector in the world. According to testimony given a couple of weeks ago, it is the regulator regime, namely BSA (Bank Secrecy Act)/AML (anti-money laundering) that is driving this dangerous trend.

And the problems go beyond banking. Right now it is impeding the flow of humanitarian aid across the globe. We have passed bipartisan legislation on Operation Choke Point and the regulators tell us that it isn't happening.

But every witness, Mr. Secretary, that we had before the subcommittee that day, told us a different story, as have our Nation's financial institutions and their customers.

Number one, are you familiar with a letter that we wrote to you with regard to this?

Secretary MNUCHIN. Yes.

Mr. LUETKEMEYER. Does this trend alarm or are you concerned about it, do you recognize that there's a problem?

Secretary MNUCHIN. It is something we think there is an issue with, we are looking at BSA reform, AML reform, we need to strike the right balance on that. I am not aware of any humanitarian aid that hasn't gone through as a result of this, but BSA reform is something we are studying carefully and the derisking issue is something we share your concern with and we are looking at.

Mr. LUETKEMEYER. When the IMF actually is concerned about derisking, that raises some alarm bells for me, because they are not necessarily on the cutting edge sometimes, the regulatory oversight, but I appreciate your comments, sir.

Obviously, I couldn't let this opportunity go by without discussing the customer due diligence (CDD) rule. We have had some concerns about that as you well know the BSA/AML bill that we are talking about, we are trying to find a way to deal with beneficial ownership. We are looking for guidance from you, would you be willing—I know we have talked about this in a number of settings already and tried to set up meetings and hopefully we will be able to get that done, we want to get the commitment from you to continue to work on that issue.

Secretary MNUCHIN. Yes, you have our commitment to continue to work on that issue.

Mr. LUETKEMEYER. Do you have any suggestions today for us?

Secretary MNUCHIN. I have no suggestions today for you other than I have shared in the past.

Mr. LUETKEMEYER. Mr. Secretary, I appreciate your comments today, and I know that this is an issue that is paramount with a lot of the banking industry. Those folks have become basically deputized law enforcement officers, and with some punitive outcomes if they don't do this. And they don't need to be in the middle of this so we want to really sincerely work with you, try and find a way to get this situation resolved. I appreciate your comments.

I yield back the balance of my time to the Chairman.

Chairman HENSARLING. Gentleman yields back.

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

Mr. SHERMAN. Thank you, Mr. Chairman.

We in the United States have a good problem; the economy is good so we have to fight over who gets the credit. The facts are these: Dodd-Frank stabilized the financial system, and coincident with its effective date, we have had a massive economic expansion that has produced 17 million new jobs. Of those 17 million new jobs, 15 million occurred during the Obama Administration, and 2 million occurred under the Trump Administration. That is 15 million under the Obama Administration, 2 million under the Trump Administration.

Now, this committee has seen a lot of charlatans in the financial services world, but we haven't seen one quite as bad as what I am going to say. Go to a consumer and you say we are going to give you a \$500 bonus—no, a \$1,000 bonus, right here is the check, and then you fail to disclose to them, in any way they understand, that you are going to slap a \$34,000 mortgage on their house.

If any charlatan had done that, this committee would have nailed them. But that is exactly what the tax bill does. People are told they got a \$1,000 bonus. A few of them did as a result of this tax bill, some only got \$500, most got nothing. But what wasn't mentioned was the \$34,000 which is the share of the average family of five of the increase in the national debt.

As to trade, and, Mr. Secretary, I am going to send you the transcript of the hearing we did yesterday in the Asia Subcommittee, I am going to be perhaps the one person in this room that says that Mr. Trump's focus on China has been a little too late, a little too hesitant, and a little too weak. We gave China MFN, Most Favored Nation status in the year 2000. When that happened, two thirds of democrats voted, no.

Now, Wall Street trotted out some economists who said that the increase from that MFN bill would only be—the increase in the trade deficit with China would only be \$1 billion a year. Two thirds of democrats were right, the Wall Street economists, bought and paid for, were wrong. They were off by a factor of 25,000 percent.

And so I would hope that, and we have a chart behind you that shows the massive increase in the trade deficit with China since the beginning of this Administration, but I do not think that anti-Trump democrats, and on most things I am anti-Trump, should change our position. Two thirds of us were right 18 years ago, and

we are right today, and MFN should be provided to China only in the context of fair and free trade.

Now, something far less controversial, I want to thank you for your last appearance here when we talked about the U.S. Armenia Tax Treaty. You made a commitment then that you would have at least one tax lawyer spend 28 hours on the project. And that work has not begun and it is not your fault. The Armenian government has had a lurch toward democracy and transparency that many of us applaud. Things are a little bit of a state of tumult still in Yerevan.

I am assured that when things calm down, the Armenian government will approach us, committed to the kinds of transparency that our model tax treaty calls for, and then I will hold you to the 28 hours. As a matter of fact, that 28 hours was based on that 28 Members of Congress have asked you to do that. It is now up to 31, so I may ask for another 3 hours.

Marijuana, legal in a lot of States, I hope that you would act so that the activities of the Treasury Department don't mess up the economies of those States, whether it be large amounts of cash being moved around, very dangerous to society and an invitation to crime. Or the risk to land title, where people say, well, maybe I don't own this property, because maybe 10 years ago it was used for marijuana and the Federal Government might seize it.

In the insurance area, the International Association of Insurance Supervisors (IAIS) is continuing to pursue insurance capital standards that seem incompatible with the U.S. system of State insurance regulation. And I hope that you would answer for the record how you will ensure that the U.S. State-based regulatory system will be protected in the negotiations, and I will have another question for the record on mutual funds.

And I yield back.

Chairman HENSARLING. Gentleman yields back.

The Chair now recognizes the gentleman from Michigan, Mr. Huizenga, Chairman of our Capital Markets Subcommittee.

Mr. HUIZENGA. Thank you, Mr. Chairman, and I am sure Secretary Mnuchin, yes, you are encouraged as well as I am by my colleagues' newfound concern with our debt situation, especially in light of \$1 trillion-plus deficit spending that had happened under the last Administration on an annual basis.

And I hope these same colleagues will have that same enthusiasm to tackle the entitlement situation that we have here so we can actually have a safety net system that will exist for future generations. So that is where we need to focus and concentrate on.

But I want to hit on a couple of things, one very briefly here on the Volcker Rule. I need to take this opportunity as Chair of the Capital Markets Subcommittee to do that. Then I want to talk a little bit about China and our debt with China and some trade.

So recently, last month, Treasury announced that the five Federal financial regulatory agencies dealing with Volcker had come together and had proposed some changes to ease compliance while still implementing Section 619 with the 60-day comment period, you said, quote, "the five agencies responsible for regulation of the Volcker Rule coming together on this notice is an important first step."

I am wondering, could you explain a little bit about how these reforms help address the Volcker Rule so that compliance can be streamlined, rules clarified, and markets can be made more efficient?

Secretary MNUCHIN. I think on the Volcker Rule, it is all about providing more clarity and making sure that the appropriate people can properly execute the rule. So I think there was a lot of ambiguities. Some people refer to, you should have a lawyer and a psychiatrist to interpret it. But this is about, we want to make sure it can be enforced but it can be enforced clearly.

Mr. HUIZENGA. And what are the next steps Treasury is exploring to help appropriately tailor the Volcker Rule?

Secretary MNUCHIN. This is now—we had a series of suggestions on this in the executive report but this is now being led by the regulators and is being executed by them.

Mr. HUIZENGA. Turning to China, obviously China has a very large chunk of our debt. It's somewhere in the neighborhood of \$1.2 trillion, \$1.2 trillion that China directly controls. Do you have any fear that they could use that as an alternative trade weapon? And if so, are there any contingency plans that have been established as countermeasures if that were to happen?

Secretary MNUCHIN. I would just comment, to a large extent, the big component of the reason why they have that debt is because the giant trade deficit and then reinvesting that cash. I have no reason to believe that is of concern to the market at this point. The market is very liquid and has a lot of depth, but that is something we will continue to monitor.

Mr. HUIZENGA. I appreciate that. I, like some of my colleagues, I know Mr. Barr and others have expressed desire to push for better, fairer trade deals. I would join that sentiment as well, but we do know that sometimes victory comes at a heavy price. And I wanted to explore a couple of things real briefly with this. I chair the U.S.-Canada IPG, the inter-parliamentary group; it is the official exchange between the parliament and the U.S. House.

And I can tell you our Canadian allies and friends, neighbors, trading partners, are genuinely confused about why Section 232 was used to designate some of the tariffs on that. And what are you telling your colleagues internationally about this?

Secretary MNUCHIN. I have had very direct conversations with many of my colleagues on this, specifically the Canadians. I don't want to go in detail in this setting. But I can assure you we have had very detailed discussions. I am on my way to Mexico tomorrow with Secretary Pompeo, and obviously NAFTA is a big focus now that there are the elections there.

Mr. HUIZENGA. I would like to maybe explore this offline with you. And while I commend the goal, I am afraid that there may be some actions trying to recapture a world that frankly no longer exists. The largest trading partnership in the world is U.S. and Canada. Sixth largest trading partnership in the world is the State of Michigan and Canada, a lot of that surrounding autos, office furniture, and agriculture.

And what we are seeing here is an integrated supply system that has parts for vehicles traveling back and forth across the border sometimes nine different times, and thousands of parts doing that.

So we have to be very careful with that and I look forward to our conversation. Thank you.

I yield back.

Chairman HENSARLING. Time of the gentleman has expired.

Chair now recognizes gentlelady from New York, Mrs. Maloney, Ranking Member of our Capital Markets Subcommittee.

Mrs. MALONEY. Thank you, Mr. Chairman, and welcome, Secretary Mnuchin.

The last time you testified, I asked you about beneficial ownership and you said you wanted more time to look at it. I think it is a critical challenge before our country. I introduced a bill at the request of, really law enforcement, that said they would track money and terrorism and drugs and guns and hit an LLC and not know who owned it. They just want to know who owns it so that they can protect us better.

And the best time to do it is when they are filing. We have a bill in, many of us in a bipartisan way are supporting it, that this information would be available to Treasury, kept at State level if they so wished and also law enforcement. I live in a city, New York, that continually faces terrorist threats and there are no threats unless there is financing.

So cracking down on terrorism financing is critical and I now want to know that since you have had a chance to look at this, and in light of the testimony that the FinCEN director gave recently, that he believed companies should be required to disclose their beneficial owners at the time that they are formed and they are a part of Treasury, so I would now like to ask you if you have had a chance to look at this and what is your feeling now on supporting beneficial ownership and having this information available to Treasury and to law enforcement?

Secretary MNUCHIN. So first of all, let me just say I fully support that it is a very important issue and we need to be able to figure out an efficient and prudent way that we have access to beneficial ownership. I wish I could tell you I already had this solved. We are having a lot of discussions.

We look forward to continuing this discussion with you and members of the committee to find a solution. We need an appropriate solution to this.

Mrs. MALONEY. Thank you, our committee has been discussing legislation to reform the Bank Secrecy Act and anti-money laundering rules. I believe that any legislative package on this issue must address the issue of beneficial ownership because anonymous shell companies are routinely used to finance criminal and terrorist organizations.

So do you believe that a legislative package to strengthen our anti-money laundering rules should address the use of anonymous shell companies by criminals and terrorist organizations?

Secretary MNUCHIN. As I said, I believe this issue needs to be solved. Whether it is solved as part of BSA or whether it is solved separately, these are both very important issues but we do need to be able to have access to beneficial ownership information for law enforcement and for combating terrorist financing.

Mrs. MALONEY. Also in February, Treasury, you released a report recommending that we keep Dodd-Frank's Orderly Liquidation Au-

thority for winding down large financial institutions as an emergency option, and I agree with you, and I want to thank you for that report. The report also recommended changes to the Orderly Liquidation Authority and if there are changes that need to be made, I think we should have that discussed because I strongly oppose repealing this authority.

Can you discuss why you think, as your report stated, that the authority is a far preferable alternative to destabilizing financial contagion or ad hoc government restructuring or bailouts?

Secretary MNUCHIN. This is an issue we reviewed very carefully and we do support keeping it. I look forward to speaking with you about some of the specifics of the changes that we would recommend they would require legislation.

Mrs. MALONEY. Thank you and I look forward to those discussions.

And finally, as chairman of the Financial Stability Oversight Council, in that capacity as chair, what do you see as the biggest risk to the financial system right now?

Secretary MNUCHIN. I think the good news is from a capital and a credit standpoint that not of a major concern. I would say the issue that I focus on at the moment of the most significance is cyber-security. And I am not implying in any way that there is a cyber-security risk but this is the area that we need to continue to invest in, we need to continue to have public-private partnerships and I am very focused on the safety and security of the financial infrastructure.

Mrs. MALONEY. Thank you. I yield back.

Chairman HENSARLING. Gentelady yields back.

The Chair now recognizes the gentelady from Missouri, Mrs. Wagner, Chair of our Oversight and Investigation Subcommittee.

Mrs. WAGNER. Yes. Thank you, Chairman Hensarling, and welcome, Secretary Mnuchin.

Secretary Mnuchin, according to the most recent numbers provided by the United States Trade Association, Missouri exports support some 88,000 jobs in 2016, totaling \$13.9 billion worth of goods. That is why earlier this year I joined many of my colleagues in urging the President to rethink his tariffs on steel, aluminum, and other goods.

The retaliatory tariffs levied by Mexico will absolutely be felt in my home State of Missouri, which I noted earlier, depends heavily on trade. My constituents are concerned, as am I, that these tariffs will have a serious impact on our State and will create winners and losers in communities across Missouri.

Mr. Secretary, as I mentioned before, some of these tariffs have targeted our allies. Can you describe in detail the expected endgame for these trade actions and what is a specific timeframe you expect for these policies to achieve their desired effect?

Secretary MNUCHIN. First of all let me just comment I share your view that exports create enormous job opportunity. So our overall view is we should be doing things to make sure that our companies can fairly compete and export fairly into these markets.

We were in, to put these in different buckets, there is obviously the NAFTA-related issues, there is the E.U.-related issues, and there is the China-related issues. As I mentioned, this is something

we meet with the President on weekly. The economic team is very focused on all of this.

Mrs. WAGNER. Timeframe?

Secretary MNUCHIN. I can't commit to a specific timeframe. Although, as I previously mentioned, NAFTA is now a big priority since we have the Mexican election behind us.

Mrs. WAGNER. Mr. Secretary, I want to take a second to focus on China. In 2017, growers in the United States sold nearly 1/3 of their soybean harvest to China. The recent Chinese tariffs on American soybeans will hit Missouri hard and already have. Reports of farmers are expected to sell their crops at a loss. What would you say to my constituents that will be directly impacted by the President's actions on trade, especially vis-a-vis my farming community?

Secretary MNUCHIN. I can assure you I never was an expert on soybeans, but I have now become an expert on soybeans.

Mrs. WAGNER. As have I, Mr. Secretary.

Secretary MNUCHIN. I follow this market daily. I can assure you that we are focused on this; we are in discussions with Secretary Purdue and others about this. As I said, this is an unfortunate impact of what we are trying to do, which is get free and fair trade with China and they have unfairly targeted specific markets and that is not coincidental.

Mrs. WAGNER. No, it is not coincidental and it is causing real harm in present day to the farming community and the soybean farmers in my home State of Missouri.

Secretary MNUCHIN. And I can assure you, I and the President understand that and we are focused on that.

Mrs. WAGNER. If trade relations with China remain strained, commodity producers in Missouri will need to find new markets, Mr. Secretary, for their goods. ASEAN (Association of Southeast Asian Nations) countries seem to be natural trade partners. Over half of U.S. Congressional districts export more than \$100 million in goods to ASEAN every year. ASEAN countries themselves wish to see stronger trade relations with the U.S.

If U.S.-ASEAN trade relations become more formalized, whether that is multilateral, bilateral, whatever it is, Mr. Secretary, would China be pressured to institute fairer trade practices? I like to make sure that I do put in a plug that we enter into some of these bilateral, or a multilateral, with ASEAN countries as an opportunity to have new markets for my farming and ag community and others in the district.

China's ascension, Mr. Secretary, to the World Trade Organization (WTO) has done little to change its predatory trade policies. Mr. Secretary, how can the World Trade Organization be restructured, in your thoughts to better restrain China's behavior?

Secretary MNUCHIN. That is a complicated issue that I don't have time to go through now. I would be happy to discuss that more with you. Ambassador Lighthizer is really the expert on this. I would say again, the rules-based system is OK if the rules are being followed. The problem is that, as you have outlined in the case of China, they are not following many of the things that they have previously—

Mrs. WAGNER. And they subsidize everything, Mr. Secretary.

Secretary MNUCHIN. That is correct.

Mrs. WAGNER. There are two kinds of companies in China—those that are owned by China and those that do everything China says. So we are going to have to look at some of I think those issues when it comes to interstate commerce and such in dealing with the WTO. So, I look forward to continuing our conversation.

I thank the Chair and I yield back.

Chairman HENSARLING. The gentlelady yields back.

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

Mr. MEEKS. Thank you, Mr. Chairman, Mr. Secretary, good to see you again.

Let me just start off with a basic question. Let me just see, if you were a business person and you are buying a business, what would be the easiest way or best way for the business to move forward. If you bought a business that was deep in the hole or you bought a business that was at level and moving in the right direction. What would you think would be the hardest task for one to accomplish?

Secretary MNUCHIN. I am not trying to be coy but that is a little bit of a hypothetical question, that there are opportunities in both.

Mr. MEEKS. The hypothetical question is if there is something, if you have a company that is deep in the hole, going in the wrong direction, problems all over the place, as opposed to a company that you are buying that is, they have corrected some of the problems that were in there. They are moving forward in the right direction. Things are starting to improve. They are starting to hire people. Things are moving in the right direction. Which, as a CEO if you came in, I figure you were a business man, what would put you in the best situation?

Secretary MNUCHIN. Again, it is completely hypothetical but sometimes it is easier to buy things that are broken and sometimes it is easier to buy things that are fixed. I can't comment on hypotheticals.

Mr. MEEKS. OK, you don't want to comment on it, well let me not give you a hypothetical. Let me give you a fact. This country, when President Obama was the President, was in deep debt and was losing hundreds of thousands of jobs a month and was in serious problem and the worst financial crises since the Great Depression.

That was the situation of this country when Barack Obama was the President or became the President of the United States in 2008. Fact; fact, not hypothetical. When the stable genius became the President, and that is what he calls himself—self proclaimed stable genius. This country, because over one hundred months ago we were gaining jobs—that is 8 years ago; moving forward in the right direction creating jobs. What situation do you think is better for a President of the United States?

Secretary MNUCHIN. I—

Mr. MEEKS. Not a hypothetical. That is a fact unless you can deny that fact. Mr. Stable Genius denies all the time different facts. Now, let us move forward because I am concerned about what I saw today at NATO and at the G7 because you would agree that we are more interconnected today as a world than ever before,



is that not correct? That is not a hypothetical either, is it? Or isn't it a fact that we are more interconnected as a world today, Mr. Secretary?

Secretary MNUCHIN. More relative to when?

Mr. MEEKS. To any other time in our history.

Secretary MNUCHIN. I don't know if we are more, we are interconnected.

Mr. MEEKS. With technology, are you denying with technology today and the way that our trade system works and all of the things that are moving around the world and how fast things are, we are not more interconnected today than we were ever?

Secretary MNUCHIN. Again we are interconnected so I am happy to answer other questions?

Mr. MEEKS. So when were we more interconnected?

Secretary MNUCHIN. More is a relative issue. I don't know if we are—

Mr. MEEKS. Are you a stable genius, Mr. Secretary?

Secretary MNUCHIN. Am I a stable genius? I am stable and I won't refer to myself as a genius one way or another.

Mr. MEEKS. I am just trying to find out because I know that sometimes working for stable geniuses is—I would like to know how that is. Does the stable genius—and I am not—it is not words that I have used, it is the words that he said he is. He said he is a stable genius. Does he listen to you because I am listening to some of my colleagues ask a lot of the things especially around tariffs we agree upon. We agree that we are losing jobs.

We agree that there are scenarios that are worrying all of us, Democrats and Republicans and I am hearing you saying some of the kinds of things, and some of the Administration, and some of the people around him might be saying the same thing. So I am wondering whether or not the President, when you are in those rooms, is he listening to you or because he is a stable genius he just does whatever the heck he wants to do without listening to your advice. Does he listen to your advice?

Secretary MNUCHIN. Yes, I can assure you that the President listens to my advice. He is the President. Sometimes he follows my advice and sometimes he doesn't which I respect, but I would not be in this job if I did not think he listens to my advice and I couldn't be happier with the economic plan we are on.

Chairman HENSARLING. Time of the gentleman has expired. The Chair now recognizes the gentleman from California, Mr. Royce, Chairman of the House Foreign Affairs Committee.

Mr. ROYCE. Thank you very much Chairman and Mr. Secretary, thank you for being with us. The President offered a laudable goal at the G7 meeting in Quebec when he challenged our leaders to get to no tariffs, no barriers. It has been reported, the German automobile makers are open to the idea of zero tariffs; that would certainly be a win if we could de-escalate with Europe on that basis of zero tariffs between us and them.

But we have seen little talk elsewhere of this as the endgame and instead what we see is a two front trade war; one with China, which frankly is not playing by the rules, and another with our close economic allies in the E.U., Canada, and such and our domestic industries in agriculture are being threatened. On the list of

targets are bourbon, bikes, blue jeans, and even Mr. Poliquin's beloved Maine lobsters. So could we do a reposition in a different direction here because zero tariffs, for example, if we looked at autos, would be a victory for free trade and fair trade and maybe get us in a position where our allies are on the same page.

And when we talk to our allies in the E.U. and our largest export market, Canada, are we reiterating zero tariffs as the goal? I would think that might be a first and second option in order to try to advance a way to get us together.

Secretary MNUCHIN. We are advocating no tariffs, no tariff barriers, no subsidies; it is a package altogether. We are advocating growing exports for U.S. companies so they can compete fairly and if we have fair trade, we will increase exports significantly and we won't have the outsized trade imbalance that we have.

Mr. ROYCE. And I think that outcome would also give us a position with our allies where if we can set high standards, we can then maybe do something collectively to discuss the problem with Beijing's lack of following the rules. But the other thing I wanted to ask you, and this is something that Blaine Luetkemeyer brought up and he and Steve Pearce and I have talked about. It is this fact that criminal organizations are infamous for using anonymous shell companies, both foreign and domestic, to open bank accounts to launder money, to perpetrate fraud, and frankly now to finance terrorism.

And this is an area where the United States, frankly, and Kenya, have not been not front and center in terms of doing something about beneficial ownership. There was a 2016 financial action task force report that found the U.S. had an absence of any measures to ensure that there was adequate, accurate, and timely information on the beneficial ownership. Would you agree that this is a vital issue where we should work together and work in a bipartisan way to move something quickly?

Secretary MNUCHIN. I would indeed and I actually just wrote that down. We have to figure out this beneficial ownership in the next 6 months. I don't want to be coming back here next year and don't have this solved, so we need to work with Congress on a bipartisan basis on this.

Mr. ROYCE. Thank you, Mr. Secretary. And last, in recent months, the Administration has twice raised concerns about recent legislative action on international insurance matters.

First was in a memo from the Department of Justice raising constitutional concerns that H.R. 4537 would, in their words, contravene the President's exclusive authority over the conduct of diplomatic relations.

I will just share with you, I am concerned that such actions would limit the flexibility of the Treasury Department to lead international negotiations on financial insurance standards and potential future covered agreements, and I think the results of that could be quite negative.

And I just ask if you share those concerns.

Secretary MNUCHIN. I am going to follow up with you on the specifics of those offline, but thank you.

Mr. ROYCE. Thank you very much, Mr. Secretary. And, Mr. Chairman, I yield back.

Chairman HENSARLING. Gentleman yields back, the Chair now recognizes the gentleman from Massachusetts, Mr. Lynch.

Mr. LYNCH. Thank you, Mr. Chairman, and the Ranking Member. Mr. Treasurer, thank you for being here. I want to follow up on Mr. Barr's line of questioning about sanctions. And obviously as a result of the President's withdrawal from the JCPOA, we are going to have to—well, you are going to have to reinstitute sanctions against those companies, banks, and countries that continue to do business with Iran.

So—and that includes some of our closest allies, our national security partners, and countries that are cosigners of that agreement, including Great Britain, Germany, France, the E.U., Russia, and China.

Earlier in your testimony, you said you have frequent conversations with China. Is China going to reinstitute the ban on importing Iranian oil to China?

They are the largest single purchaser of Iranian oil right now. Have they agreed to join our sanctions?

Secretary MNUCHIN. Again, I think it would be inappropriate for me to comment on the specifics—

Mr. LYNCH. I think it would be entirely appropriate.

It is the ball game, right here.

Secretary MNUCHIN. But I will tell you—

Mr. LYNCH. If the largest single purchaser of Iranian oil is not part of this deal, then those sanctions are meaningless.

Secretary MNUCHIN. What I was going to say is I think it would be inappropriate for me to comment on specifics of a conversation. But what I will tell you, it is our intent to enforce sanctions on Iran related oil against everybody including China.

Mr. LYNCH. Right, and so we are in the middle of a trade war with China, I am asking you whether they are going to join us.

Secretary MNUCHIN. Again, we intend to enforce sanctions on them, on Russia, on Europe, and others against Iranian oil.

Mr. LYNCH. Wait a minute, the sanctions against Iran is going to raise the value of Russian oil. So by withdrawing from the JCPOA, you are helping Russia. There goes your sanctions against Russian oil.

This is going to be a windfall for Russia, they are going to do much better now because they will be a much important source of oil in that region. So they are going to, I am sure, be the big winner and I think the American consumer with higher gas prices will be the big loser, quite honestly.

I think that is the natural consequences of that. Now, Treasury, and importantly, OFAC, the Office of Foreign Asset Control, is the Department within Treasury that is really keenly responsible for this, although obviously you are going to have to work with Secretary Pompeo in State Department to reinstitute these sanctions.

Secretary MNUCHIN. That is correct and we have already activated that plan.

Mr. LYNCH. OK. In terms of having—first of all, you only have about 200 people up at OFAC. They are very, very hardworking but with all this extra work, I am very concerned whether you have the resources to do this. You just lost your top three people that

do the sanctions work. They just left, they just quit. So your reassurances to Mr. Barr, I don't think are well-founded.

The other problem is, on State Department—so we have to work with the host countries to make sure that the sanctions are observed. So it would be ideal if we had an ambassador in Saudi Arabia, for example. But we don't have one. None has been nominated. We don't have an ambassador or a nominee—the President hasn't even nominated anybody. Nobody in Saudi Arabia. We have no Ambassador in Turkey. I was just there a couple of weeks ago.

I was in Jordan a couple of weeks ago, we don't have an ambassador in Jordan. We don't have an ambassador in Egypt, I was there like 3 weeks ago. Mexico, you would think we would need an ambassador to Mexico with everything we have going on with the immigration at the border, plus NAFTA. You think we might get an ambassador to Mexico? Qatar, another key country.

Australia, Azerbaijan, another key source and we are going to try to shut down oil shipments, they would be good people to talk to. We don't have an ambassador in Qatar, Australia, Azerbaijan, Georgia, Somalia, Libya, Tajikistan, Panama, Venezuela. All key countries if we are going to ask people to join us in these sanctions. You just said earlier that you have weekly meetings with the President. Ask him to pick a few of these 20 or so countries and appoint an ambassador so that your Treasury personnel, OFAC—they do a wonderful job, very hardworking people, can actually work with—and your Treasury liaisons, you need a few more of those. You have some members over there, some Treasury liaisons that work with FinCEN that are handling four and five countries in the Middle East.

We have a lot of work to do and I don't buy the reassurances that these sanctions are going to go like you think they are.

Chairman HENSARLING. Time of the gentleman has expired. The Chair now recognizes the gentleman from New Mexico, Mr. Pearce, Chairman of our Terrorism and Illicit Finance Subcommittee.

Mr. PEARCE. Thank you, Mr. Secretary. Thank you for being here. Thank you, Mr. Chairman. So the discussion on the oil is one that is especially timely. The U.S. is just right now in the next month or so in the position of overtaking Saudi Arabia as the number two producer. We will surpass Russia in the very near future. And all of that is occurring because Republicans actually put into a bill, in December 2015, the ability to export our oil for the first time in 40 years.

That has allowed an unprecedented expansion into fields that were before probably not really economic. So again, I compliment you on the stances of the Administration with regard to energy. That energy revolution is taking place in my home county and the county right next to it, so that many of the entry level workers are making 100,000 bucks. So the Administration's policies of the Tax Cuts and Jobs Act along with this energy export is revolutionizing the world market on oil.

And if we will continue to allow that export, then we are going to replace a lot of those foreign countries who have had free range in the export market. So again, Mr. Secretary, I appreciate that. My main questions have to do with CDD and its implementation.

You are aware of the TIF Subcommittee's discussions on beneficial ownership. Mr. Royce just mentioned those.

When the CDD rule was implemented and banks began to say, "We don't know exactly how to respond to this" and so they were being told, "OK, we have a couple of facts out but really no guidance." Is there any idea of when we will have more specific guidance on the CDD rule?

Secretary MNUCHIN. I don't have the specifics of that but I will look into it and get back to you.

Mr. PEARCE. OK. Now, when Director Blanco was here in front of the committee a couple months ago, he said that really they weren't worried too much about compliance right now in the CDD rule, that it was implementation. Is that a full agency position or is it just him trying to manage the affairs under his purview? Is that a broader directive or something that he is just working out?

Secretary MNUCHIN. I think you should know it is a multiagency issue but that is not a directive from me.

Mr. PEARCE. OK, that was what I was trying to come up with. Now, again, you just mentioned that your full intent is to get back with us in the next 6 months and try to figure out in a bipartisan way if we can accelerate that time, if we could accelerate the meeting. We really have the BSA reform bill ready to go except for this one piece and we keep bouncing back and forth between the two sides on that.

As we in the country really don't have our minds clearly made up, we see the effects of not having the beneficial ownership and we then become one of the key places that shell companies come to operate because they know that we are in conflict on this. The other side worries about too much information in the hands of the government. Have you wrestled with this any at all in your approach to it? Are you still leaving that to the FinCEN level to try to work it out?

Secretary MNUCHIN. No, I have been actively involved in discussions and I am going to ask the chairman to set up a meeting with the appropriate people on the committee. As I have said, there are different solutions. There is not a perfect solution. But I do believe we need to solve this and move on.

Mr. PEARCE. I would agree wholeheartedly. It penalizes legitimate businesses when the shell companies can come in and operate and launder money. Right now the oil field has a lot of companies come in and they compete mercilessly with cash that is not generated from legitimate operations. And it takes away from the strength of the local business community.

Now, when you testified before us about a year ago, you said about 50 percent of your time was used on cybercrime and cyber terrorism financing. Is that still true? Is it still the pushing wave?

Secretary MNUCHIN. It is.

Mr. PEARCE. It's something that we wrestle with in the TIF Subcommittee. We just plan to continue to work with you on it. Again, appreciate your leadership. It has always been steady and Sigal has just been good to work with and so the stability of the agency is something that I appreciate from my perspective. The rising wage market, rising employment markets, those are things that all of America is in awe of right now.

The growth rate projected by the Atlanta Fed last month is phenomenal. So again, Mr. Secretary, thanks for your work. Yield back.

Chairman HENSARLING. Gentleman yields back. Chair now recognizes the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much. Welcome, Mr. Secretary. Mr. Secretary, the people of this Nation are very worried. They are very concerned about this trade war. Make no mistake about it. Both Democrats and Republicans are very much worried about it. Now I really want you to listen very carefully to me, because there is no State that could be so devastatingly impacted on this than my beloved State of Georgia.

Let me explain to you how. Let's take the fact that poultry for example—Georgia is the leading producer of poultry in the world. And according to our National Chicken Council and leading chicken producers like Tyson's Food, they have informed me that in 2014, for example, U.S. chicken exports to Mexico, one of our most important markets alone, totaled \$800 million.

But during the same period, Mr. Secretary, Brazil's exports went up from \$50 million to \$200 million. If we continue to put up these trade barriers in Mexico, it is clear as a bell to anybody looking at this that they will take even more of the market, leaving American chicken farmers and producers out in the cold.

Let us go to another one. Let us take aluminum for example. In Georgia, we have massive users of aluminum, manufacturers. And it is not just Georgia, but all across the Nation. Imagine—go into a grocery store and just look at how much of our food, our beverages are contained in aluminum cans. Can you imagine the impact that will have? I want to go to another point, our pecans. Did you know that half of the pecan production in Georgia is exported to China, in which we are in the middle of? And Georgia produces one third of all the pecans in the United States.

I want you to have that, I want you to recognize Georgia. I want you to tell the President how damaging this will be to Georgia businesses, Georgia farmers, Georgia manufacturers, and not only that, to the employees, because when the aluminum manufacturers come in, that is going to be a one to 18 ratio in loss of jobs.

Mr. Secretary, let me just ask you this. My question is this, to you, are you prepared, are you ready to be the one who will take full responsibility as the Treasury Secretary in charge when Georgia and this Nation inevitably enters into this high inflationary rate?

Who's going to pay for this increase? It is the Georgian American consumers going to do that. What about the loss of jobs in manufacturing? It is going to be the American people.

You say well the economy's moving on all cylinders. I agree with you, but what I am curious about is the cavalier attitude this Administration has of the loss of jobs, of the impact on this. The side effects while we are riding on this sugar high. And I want to just ask you this question, are you ready to assume full responsibility of the downside when the darkness comes? Are you ready to take full responsibility?

Secretary MNUCHIN. I am, and I share your concerns, and as I have said, we are not taking this lightly. We are monitoring all

these specific issues carefully. We are concerned about the job losses on the areas that you have impacted.

Mr. SCOTT. And you understand a real outside impact this is going to have on our people in Georgia? I want to make sure, because we are going to be paying close attention. Now, in the Senate, someone mentioned this, but the Senate passed a resolution 88 to 11, the resolution was largely symbolic.

But it said that there may be and should be an expanded Congressional role in overseeing the tariff decisions. And I am concerned do you support this?

Secretary MNUCHIN. I do not.

Mr. SCOTT. Very good. Thank you, sir.

Chairman HENSARLING. Time of the gentleman has expired. Chair now recognizes the gentleman from Oklahoma, Mr. Lucas, former chairman of the House Agricultural Committee.

Mr. LUCAS. Thank you, Mr. Chairman. Mr. Secretary, I want to raise with you one capital requirement rule that has been the subject of this committee's scrutiny. Mr. Luetkemeyer has a bill, of which I and others are co-sponsors, which would offset for purposes of capital rules, any client margin that is posted to a clearing member.

This idea was a recommendation of your department's first report in 2017 and has been discussed in Europe as a regulatory change. As this hearing is about international issues, I would call to your attention a recent CFTC report stating that the market share of U.S. banks in terms of futures options positions has decreased 10 percent in the last 5 years compared to European banks.

While I do think this fact points to a competitive imbalance between us and the Europeans, I am more concerned about the health of clearing for derivatives.

If these data are correct, some capital rules might be hindering the laudable goal and policy of clearing that Congress mandated in 2010. And it will not help markets if capital rules encourage participants to go elsewhere for derivatives clearing.

Given that, do you think that the SLR rule needs to be tweaked to offset client margin and would such a change make sense for purposes of helping clearing in the United States?

Secretary MNUCHIN. It's something we are discussing with the regulators as you have outlined.

Mr. LUCAS. Thank you, Mr. Secretary. And could we turn for just a moment, since trade seems to be the topic of discussion here, and I represent an ag and energy district, and in both situations, we produce more in my region and generally of those products than we can consume in the United States, thinking of natural gas as well as certain ag matters.

The situation that we find ourselves in that the President and the Administration are trying to address both with China and the rest of the world would seem to me to be something that has evolved not in the last few months or days or weeks, but literally the positions of our predecessors in Congress and previous Administrations starting after the Second World War.

Give the world an opportunity to do business with the United States, encourage economic development, capitalism and democracy

will follow. Now the Europeans have a strong economic system. From the ashes of the Second World War, they created it. And a strong politically democratic system, a democracy patterns there.

Our friends on the other side of the Pacific, while they seem to have understood that communism was not the best economic model and have adopted capitalism, some might even say the old mercantilist version of capitalism.

They have not made the political steps forward that perhaps our predecessors have hoped for, but is it fair to say that what the Administration is trying to do now is, in general, reset the trade field for the entire planet in a more equitable fashion?

Secretary MNUCHIN. That is absolutely correct, free and fair trade.

Mr. LUCAS. The old days of giving everyone else advantages in order to help them develop, to create a more stable and peaceful world—that stage is now gone and it is time to make sure we are treated fair and equitably. Right, Mr. Secretary?

Secretary MNUCHIN. That is correct.

Mr. LUCAS. And when you reorder the entire world, it is not a simple process. Correct, sir?

Secretary MNUCHIN. Definitely not.

Mr. LUCAS. The battle will be politically and economically challenging? So staying the course is something we need to do?

Secretary MNUCHIN. It is. Thank you.

Mr. LUCAS. That said, I was a young wheat farmer when President Carter did the embargo against the Russians, which also led to our boycotting the 1980 Olympics, using agriculture for a political tool on some other issue.

But in all industries in the United States that depend on trade, this is not using us as a tool for some other political goal; this is trying to achieve the survival of those industries for the long haul. Correct, Mr. Secretary?

Secretary MNUCHIN. It is about economic fairness, as you have outlined.

Mr. LUCAS. Thank you, Mr. Secretary.

Yield back, Mr. Chairman.

Chairman HENSARLING. Gentleman yields back.

The Chair now recognizes the gentleman from Texas, Mr. Green, Ranking Member of our Oversight and Investigation Subcommittee.

Mr. GREEN. Thank you, Mr. Chairman. I thank the witness for appearing as well.

I would like to visit with you about something a little bit closer to home, if I may. The CRA, the Community Reinvestment Act, was enacted in 1977. It was enacted because of redlining, which impacted poor people and minority people, for the most part. There is now some talk of reforming the CRA to some extent. And it has been recorded that there is a desire to expand the definition of community development.

I am concerned about this, Mr. Secretary, because I have a good many constituents who believe that the CRA should be strengthened to aid more poor people. It seems that there is the possibility of adding business lending, some aspects of business lending to the CRA such that banks can get credit for business lending.



Tell me, where are we currently on the CRA and this reformation that may take place?

Secretary MNUCHIN. First of all, I am going to suggest that Mr. Otting comes to visit you to get your views on this. I firmly believe that this is something that we should take a new look at because I think CRA can help communities much more so than it does. And this is something I was personally involved in from running a bank. I think that banking has changed, and I think we need to figure out how CRA really can help communities. And I am going to suggest he comes and speaks to you about that.

Because I can assure you, our desire in changing CRA is not about weakening CRA in any way; it is about making it more effective for communities, and making sure that the benefits go to the communities.

Mr. GREEN. I appreciate what you just shared with me, and I look forward to the visit. But I do have to indicate this, Mr. Secretary, a lot of the push is coming from the banks. And the banks are back, the banks are doing quite well, they are making record profits, \$167 billion annually over the last 3 years. Profits are up 135 percent since Dodd-Frank became the law. Business lending is up 80 percent since Dodd-Frank became the law, and the big banks will receive a \$15 billion windfall in 2018 as a result of the tax bill.

So I am concerned that we are overemphasizing paperwork and the notion that the bureaucracy is creating a loss in some way for banks. Banks are doing quite well. And my concern is this, if we change the CRA such that business lending becomes a means by which banks will be able to acquire additional credits, that may harm the lending to poor people, which is what the CRA was envisioned as a means of helping by way of dealing with the redlining that was taking place.

So I welcome the visit, but I have to ask you this, before you enact whatever these changes are, I would like to visit with you, Mr. Secretary. You are where the buck will stop. I would like to have an audience with you so that you can know more about how this will impact my constituents. And, by the way, I speak for a good many people who are not speaking on this subject; people across the length and breadth of this country who depend on banks being fair. So I beg that you and I would have an opportunity to meet and discuss this.

I am not a person who needs a lot of time; I am fairly pithy and concise. I don't deal in small talk. I go right to the point. So I think that it would be beneficial for us to have this meeting.

Secretary MNUCHIN. Mr. Green, I would be more than happy to meet with you, and, again, I can give you my personal assurance that this is actually an issue that I have asked the regulators to look at because of my personal concern and experience, that the money is not going into the communities where it should be. This is not an effort that is being driven by the banks to avoid CRA; this is about, in my mind, and we look forward to working with you, how would banks better service communities.

Mr. GREEN. Thank you, Mr. Chairman. I yield back.

Chairman HENSARLING. Time of the gentleman has expired.

The Chair now recognizes the gentleman from Florida, Mr. Ross.  
Mr. ROSS. Thank you, Chairman.

And, Mr. Secretary, thank you for being here, and thank you for your service to this country. I will tell you, since you have taken office, we have, as a committee and as a Congress, tried to give you tools to do better for our economy, to do better for our consumers. Tax law, we did a little banking-lite to open up some capital in the community banks and reduce their regulation.

There's a lot more we would like to do, but we are running out of time. And there is a lot you can still do in the Department of Treasury, especially when it comes to housing finance. We can't forget what happened in 2007 and unfortunately, we have not been able to prevent statutorily a recurrence of what may happen in a housing bubble. And I would love to see credit risk transfers being implemented from the private sector to release some of that burden that the government now has in backing these mortgages.

But yet, we are moving slow. And so we have to rely on you. And in public remarks earlier this year, Craig Phillips, one of your counselors, stated, "the Department of Treasury is fully committed to the successful implementation of the Single Security Initiative being undertaken by the FHFA, Fannie Mae and Freddie Mac."

I understand that taxpayers have sunk nearly \$1 billion into this effort, and I would be interested in your perspective on things, where things stand with this effort.

Secretary MNUCHIN. It is being implemented. It is something we support, but more broadly I would just say I also support—we need GSE (government-sponsored enterprise) reform. This is something I am determined and the next Congress should be a major focus of ours.

Hopefully on a bipartisan basis, but we can't just leave these things sitting the way are as they have been.

Mr. ROSS. And which is why we are relying on your department, I think, to do as much as they possibly can, including the common securitization platform that compliments this that allows for the implementation of this.

Do you think that platform, the common securitization platform, should be available to all market participants, not just Fannie and Freddie?

Secretary MNUCHIN. My strong preference is as part of GSE reform that we create a system of competition that if other people wanted to compete with the GSEs they could. But obviously that is dependent upon certain changes to legislation.

Mr. ROSS. We have to make. And it is your understanding that there's plenty of capacity in the market to take some of that, is there not, from the GSEs?

Secretary MNUCHIN. I believe there is, but again, we need an overall solution to this.

Mr. ROSS. And just for guidance, are there any other principles that you think are important we should be following in order to do in effect of GSE reform?

Secretary MNUCHIN. Again, I have said that as part of this, if there is either an explicit or an implicit guarantee, my preference is if there is a need for that, there is an explicit and the Government is paid and taxpayers are compensated.

Mr. ROSS. And I think that is reality in government and insurance anymore unfortunately. But as a last back stop is where we

are trying to get government to be when it comes to the guaranteeing.

Today there are about half as many companies that are going public than they did 20 years ago. In your opinion, why is that? Is it lack of access to capital, regulatory burdens?

Secretary MNUCHIN. I think it is regulatory burdens, and that is something we look forward to working with you on.

Mr. ROSS. Excellent, and one of the things I want to just close by saying is that we have probably the best system of regulation when it comes to insurance with State regulators.

And under your direction through FIO (Federal Insurance Office), we are negotiating with the International Association of Insurance Supervisors. I think it is important that we deal from a position of strength and that we assert our ability to regulate on behalf of consumers, on behalf of capital requirements and solvency requirements so that we are not influenced unduly by foreign markets when it comes time to reaching our deals with the IAIS.

And for that, if you have any comments, I would appreciate that. Otherwise, I will yield back the balance of my time.

Secretary MNUCHIN. I think we agree with you and we are comfortable where we are and we will be unduly influenced.

Mr. ROSS. Thank you. Mr. Chairman, I yield back.

Chairman HENSARLING. Gentleman yields back. Chair now recognizes the gentleman from Missouri, Mr. Cleaver, Ranking Member of our Housing and Insurance Subcommittee.

Mr. CLEAVER. Thank you, Mr. Chairman. Last week, I had a meeting in Higginsville, Missouri, town of 5,000 people in my Congressional district in Missouri. I had a meeting of farmers, standing room only, we couldn't get anybody else in there in the center.

Not one person in there believed that this tariff move by the President is good for them. Every three rows of soybeans that grows in Missouri goes to China. But I don't blame the President for this.

I may be the only person in the country, I don't blame the President. And I told them this. I blame Congress. We have allowed over the last 30 years, the President, whomever was the occupant in the White House, to gradually take the constitutional responsibility of Congress.

From the War Powers Act of 1972, we went onto this—for example, the President shouldn't have the authority to do this, because as the law—the 232, the Tax Expansion Act requires that there is a 270 day period during which we are supposed to be studying the issue and the President is supposed to be waiting on us to do that. But because the founders never envisioned a compliant Congress and so what has happened, the presidents just snatched power. I know if we could almost breakdown because of anger when President Obama stood up at the state of the union and said he would sign no earmarks.

He doesn't have that power, he doesn't have that power. The constitution gives the power of the purse to the Congress, and we are just constantly giving more and more and on something as critical as this whole tax issue, we are just saying to the President of the United States, in spite of the fact that there's legisla-

tion that would prohibit it or give direction to him, they will do whatever he wants to do, and we are going to sit here.

Now, having said that, Secretary, do you believe that in spite of my farmers going crazy, Kansas City Southern world headquarters is in my district, Kansas City's Southern Railroad, which means they go south through Kansas down through Texas and into Mexico, and they are extremely concerned and frustrated.

So are you saying all these people are just misguided and they will be OK next week?

Secretary MNUCHIN. I don't want to in any way imply that they are misguided, because again, I understand the impact that this is having on specific areas, especially the farmers which I think are being unfairly targeted.

And as I said, it is a major focus of ours to make sure that we can compete fairly and we are very focused on these trade issues, as you have outlined. But I understand the issues.

Mr. CLEAVER. Do you think that these trade wars have ever worked? Discuss Smoot-Hawley, 1930. Did that work?

Secretary MNUCHIN. Again, I would just say, I don't think we are in a trade war. We are in a situation of trade disputes, OK, these are not trade wars. And we are very focused, as I said, on the NAFTA issue, which is renegotiating an old agreement.

We are very focused on the China issue which is very complicated as you have outlined in fair trade.

Mr. CLEAVER. OK, so if I hit Al Green with my fist, we are not really in a fight, we are in negotiations? We hit China, China hit us back. That is not a war, a fight?

Secretary MNUCHIN. No, I wouldn't say we are in a fight at all. And matter of fact, the President has specifically commented on his relationship with President Xi and how they are helping us with North Korea and other areas.

And again, as I have just said, I don't think in any way we are in a fight with Canada and Mexico, quite the contrary. We are very focused on these agreements, and I am going down to Mexico tomorrow as a sign of the importance of that.

Mr. CLEAVER. Do you also agree then that Smoot-Hawley, based on economist, your people that you would respect, agree that it was the Smoot-Hawley Act of 1930 that created less confidence in the markets, which contributed to the length of the collapse of the world economy, which happened, actually, back in 1929, a few months earlier. That that did not contribute?

Secretary MNUCHIN. I think it wasn't the only issue, but it did contribute and that is why I said we are monitoring this very carefully.

Mr. CLEAVER. Thank you.

Chairman HENSARLING. Time of the gentleman has expired. The Chair now recognized the gentleman from North Carolina, Mr. Pittenger.

Mr. PITTENGER. Thank you, Mr. Chairman.

Again, thank you, Mr. Secretary, for being with us today. Really want to appreciate, of course, your strong work and support for our FIRMA legislation to reform CFIUS.

Of particular note, I would like to publicly thank Assistant Secretary Heath Tarbert for his great work in brokering this with mul-

tiple agencies and committees, individuals in the House and Senate. He did an incredible job. So thank you to him, please.

Mr. Secretary, are there any aspects or concerns that you have of the current legislation that would create a loophole or other manner in which it could be exploited by an adversarial interest?

Secretary MNUCHIN. I am sorry, you are referring to the current CFIUS or you are talking about FIRRMA?

Mr. PITTEMBER. FIRRMA—the FIRRMA bill as we are negotiating it between the House and Senate.

Secretary MNUCHIN. All right. First of all, thank you for thanking us on the work of FIRRMA. I would like to thank the House and Senate for the enormous bipartisan support. And as I have emphasized to the chairman and leadership on both sides, we want to get this passed as part of the NDAA. This is very, very important to the Treasury and our role of CFIUS.

Mr. PITTEMBER. Yes, sir. Are there any aspects of it that you would favor or be concerned about or at the end of the day, the final legislation that you feel like needs to more clearly or focus address on any issues that remain outstanding?

Secretary MNUCHIN. Again, we are very happy with the legislation. I think there are some slight differences between the House and the Senate version.

And I actually had the opportunity to meet with the chairman before this morning's testimony, and I think we are going to work together and with the conferees on trying to get this done quickly.

Mr. PITTEMBER. Yes, sir. Thank you very much. Mr. Secretary, following the President's trip last year to Riyadh, to meet with the Arab and Muslim countries, some 55 or so countries; from that, I recall an announcement of an anti-terrorism financing center to be set up in Riyadh. Do you have any further information on that or what has happened following that announcement?

Secretary MNUCHIN. Sure. I have a lot of information on that because we are the focus of that at Treasury. That was a major focus of ours for the President's trip. I actually had the pleasure of signing the MOU (memorandum of understanding).

On my trip last year, it was a major focus. I went to Saudi Arabia and saw the opening of the center. I will be going back, I believe in October, and I have committed on an annual basis to go back. We have issued the first sanctions jointly out of the TFFTC (Terrorist Financing Targeting Center), and this is one of our major priorities at Treasury.

Mr. PITTEMBER. Thank you, sir. As well, would you have any comments that you could make, referencing the MOU with Qatar, given the concerns we had in the past regarding the complicit role that Qatar had with harboring known financiers or funding for kidnapping or other foundations that were utilized, that there was the State Department MOU, which I have read, that would encourage Qatar to be more engaged with us in our oversight?

Secretary MNUCHIN. I can't comment on past activities, but I can comment on current activities.

Mr. PITTEMBER. Yes, sir.

Secretary MNUCHIN. I think they have made significant progress. We are working with them very closely. They are part of the TFFTC. We have also had bilateral discussions. I have met with them re-

cently on an ongoing basis, and we are very focused on working on terrorist financing with them.

Mr. PITTENGER. Yes, sir. Do you see any remaining concerns in terms—do you feel like they have fully turned the corner?

Secretary MNUCHIN. Again, I want to be careful in what I say on this. There is always more work to do. But they have made very significant efforts in the right direction.

Mr. PITTENGER. Just changing the focus a little bit, now. In reference to 2155, could you give me some idea of the role that Treasury will play in terms of the implementation of that?

Secretary MNUCHIN. We are going to be actively involved—just checking the number. We are going to be—

Mr. PITTENGER. I am sorry.

Secretary MNUCHIN. Because I always refer to it as FIRREA. I apologize. We are going to be actively involved. We have already started working on drafting regulations. We have a team of people that are ready to implement this immediately.

So I would hope that as soon as this is passed in the early fall, we can begin implementing this. We are going to work with Congress on additional funding. But, again, this is one of the top priorities at Treasury, and this is critical to close holes in CFIUS that we need, particularly around joint ventures and in other areas.

Mr. PITTENGER. At the end of the day, we don't want to look back, two or 3 years from now, and see that we have not done the full job. Thank you.

Chairman HENSARLING. Time of the gentleman has expired. The Chair now recognizes the gentlelady from Wisconsin, Ms. Moore, Ranking Member of our Monetary Policy and Trade Subcommittee.

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

And Mr. Secretary, again, let me say welcome to you and welcome to the committee. Let me get right to it. Our chairman here referred to the economic miracle of the tax cuts. And I just want to say that the only time that income inequality has been greater than it is now is upon the dawn and advent of the Great Depression. So income inequality is not a good thing for our economy and other people's economy.

So before I go on to talk about that a little bit more, I just want to refer back to the things that I talked about in my opening statement, the universal service fund.

There are many, many, many more poor people who have fallen out of the middle class because of the bifurcation of benefit from that tax bill. And so despite the declarations that people are better off we have seen wages not stay flat but actually fall.

So this notion that we have less unemployment but flat wages or lower wages that we are having bonuses given out. Walmart is a good example, was up there. They gave \$400 million of bonuses to its employees and then simultaneously laid off 10,000 people. So this notion that Joe Sixpack is better off is not something that is provable.

Having said that, there are more poor people and so I am just very concerned about the Universal Service Fund. And even though Brad Bailey responded to my letter, very short. He did not really—he was very unresponsive to my requests about how you all intend

and plan on administering the Universal Service Fund to make sure that it retains its purpose.

And so I will be asking you offline to do that. Now I want to go back to the economic miracle here, because of course when we implemented the tariffs, that was a double hit. I grew up in the neighborhood where Harley Davidson has its international headquarters in Milwaukee, Wisconsin.

And I am just in—the President to start picking on my little hometown company, and I am just wondering why he was so surprised. Given the structure of the tax bill, I just want to know why you are surprised. They had their corporate rate lowered from 35 percent to 21 percent.

Then, of course, they repurchased \$15 million of their shares valued at nearly \$700 million. It incentivized them to do that. The repatriation of tax benefits to corporations, rewarded people for bad behavior.

They laid off workers in Cleaver's district, 800 workers, but they are going to hire 400 new ones in Thailand. Why is the President surprised, since we had a tax bill that incentivized not raising wages? Why are you surprised? Why is the President surprised by Harley?

Secretary MNUCHIN. I—again, I would beg to differ. But I think the tax bill actually encouraged significant investment and that is—

Ms. MOORE. But it didn't happen. Walmart—

Secretary MNUCHIN. There absolutely has. In Wisconsin, there's a tremendous amount of jobs coming into Wisconsin as a result of the tax bill and as the result of new facilities new facilities that are available—

Ms. MOORE. Oh, Foxconn?

Secretary MNUCHIN. Yes.

Ms. MOORE. Oh yes, well Foxconn is going to be a \$4 billion cost to the taxpayers. It's what I call socializing the costs and privatizing the profits. It is bigger than our doggone State budget. What we are giving as an incentive, so that dog don't hunt, quite frankly.

The math doesn't work out, Mr. Secretary of Treasury.

Secretary MNUCHIN. Again, I am not going to comment on the State numbers, which again I wasn't—

Ms. MOORE. Right, they are my State.

Secretary MNUCHIN. My understanding is that the State's analysis was quite well thought out—

Ms. MOORE. No, I read the State analysis, and it is going to cost more than we are going to benefit. The—and so I am trying to understand why the President is surprised that this tax bill didn't trickle down into wages, but just became a way to buy back shares of stockholders and didn't trickle down to Joe Six Pack.

Secretary MNUCHIN. I—again we would be happy to follow up with your office and show you wage growth, which we have already seen and anticipate more.

Chairman HENSARLING. Time of the gentlelady has expired, the Chair now declares a recess for 15 minutes.

[Recess.]

Chairman HENSARLING. The committee will come to order. The Chair now recognizes the gentleman from Illinois, Mr. Hultgren.

Mr. HULTGREN. Thank you Mr. Chairman. Mr. Secretary, good to see you, thank you for being here. Honestly, from the bottom of my heart, thank you for your work. I am so encouraged as I travel around my district in Illinois of the optimism that the Chairman talked about of this new growth that we are seeing of opportunity for everybody.

And that when we have an economy, markets that are working and growing, that there is this wonderful spiral of optimism that we see happening out there, and I just want to thank you.

I know it is a big commitment, it is tough even to be a part of something like this, and yet I just want you to know I appreciate your work and appreciate the work that you and President Trump and others have done to get this economy growing again, to lower unemployment, and to raise hope and optimism.

So with that, just want to say thank you so much. I do have a lot of questions and concerns, as many others have, of tariffs, and thank you for listening on that. I want to talk about other things, if that is all right. I understand that the Treasury Department has been doing a lot of thinking about how technology is disrupting the financial services industry.

Some people call it FinTech, which I believe is partly attributable to how quickly the options for how consumers access financial products and services is changing. I think it is fair to say that depository institutions have been forced to grapple with a lot of new regulation in the wake of Dodd-Frank that has made it difficult to compete with non-depositories.

However, I also believe that it is best products and services should be successful. So one, do you believe that there is an unlevel playing field for depository institutions and non-depository institutions when it comes to their ability to adapt and innovate?

And wondered when the Treasury Department would publish the report outlining some of its policy views on how technology is disrupting financial services, including any recommendations around the availability of a Federal charter?

Secretary MNUCHIN. So we should be coming out with the FinTech report shortly, I have had an opportunity to review a draft of it, and it is just going through final review. Look, I would say, like any legacy industry or any regulated industry, there are good things that occur and developments outside in the FinTech world, and there are concerns. And we want to strike the right balance between both of those.

Mr. HULTGREN. Thank you. The United States participates in the Basel Committee on Banking Supervision and International Association of Insurance Providers. I have been critical of some of the standards established by this group, and other international bodies because of their inapplicability to our financial system, especially for smaller financial institutions and insurance providers.

I wonder, do you believe these international standard-setting bodies provide value to the global financial system, and then as a global leader in financial services, banking, insurance, and capital markets what do you believe the role of the United States should be in such international standard-setting bodies?



Secretary MNUCHIN. I think in general they do provide value because we do need to be careful and make sure we have consistency and deal with issues. On the other hand, so I think our role is both a leadership in that we provide leadership in the financial markets, but also to make sure our companies are represented in our industries fairly.

Mr. HULTGREN. Thank you. The Treasury Department includes Federal Insurance Office, recently FIO has been involved with the establishment of covered agreement with the European Union among other things. I wonder if you have any concerns with the amount of independence this office has, how should we institute prudent oversight and accountability of the file director without undermining his or her ability to effectively represent the views of the Treasury Department in the United States?

Secretary MNUCHIN. I am not concerned about the independence; we have worked closely with that area and been actively involved in the covered agreements.

Mr. HULTGREN. Great. Since you last testified before our Committee, Director Mick Mulvaney also sat in the same chair that you are sitting in and expressed his support for turning the Consumer Financial Protection Bureau (CFPB) into a bipartisan commission. I asked my friend, Mick, who was a classmate of mine, coming in to Congress if he still believes a Commission provides greater certainty to market participants and consumers?

And he testified, he said, I still believe that. And that I was a co-sponsor of that bill when I was here. I wonder if you support turning the CFPB into bipartisan commission, why or why not? And what steps the Treasury Department is taking through its work with Congress to turn the bureau in to a bipartisan commission, if they are doing that at all?

Secretary MNUCHIN. I do share his view; we are not taking any steps on pursuing that at the moment more because it would need bipartisan support.

Mr. HULTGREN. Again, Secretary, thank you for your work. I have a few seconds I would yield back to the Chairman.

Chairman HENSARLING. Gentleman yields back.

The Chair now recognizes the gentleman from Maine, Mr. Poliquin.

Mr. POLIQUIN. Thank you Mr. Chairman, very much, thank you, Mr. Mnuchin, for being here, again, appreciate it very much. Up in the great State of Maine, sir, where you would likely need to go on vacation this year because we are vacation land, it is a great stress-free environment that I am sure your wife would enjoy also.

But our economy is doing quite well, Mr. Mnuchin. We have about 2.8 percent unemployment, there are thousands more jobs and we have workers available, our paychecks are getting bigger, and it is easier to change jobs if you don't like the one you have now.

One of the problems we have had, sir, in our great State is the export of our young adults, because we didn't have an economy that was conducive to the employment they want, and now we have some of our young adults being able to come back home. So, I am thrilled about this. Now, this didn't happen by accident; it is because taxes are lower, and workers and employers can keep more

of their own money since they are able to invest and create more jobs, more opportunities for our young adults, and it is because regulations are also lower, at the State and Federal levels. So this whole war on jobs is over.

Now, thank you for your support in getting us there, first of all, Mr. Mnuchin. Second of all, I am really concerned about our small savers and investors throughout rural Maine, a nurse in Lewiston or a teacher in Bangor who is trying to save for his or her retirement, or maybe their kids' education through a 529 plan.

And when you deal with increasing regulations and cost, for any business in particular, in this case a pension manager, a retirement manager it means that the rate of return for that saver is going to be lower and the nest egg is going to be smaller.

So you, sir, are the Chairman of FSOC. You have a tremendous amount of influence on that 10 member panel. I think it would be incredibly helpful if you were able to lead an effort, or support an effort at FSOC to give certainty when it comes to the rules and the guidelines that oversee non-bank asset managers who manage retirement funds for thousands and thousands of small savers in Maine.

Because if you can avoid the unnecessary burden of being designated by FSOC as a SIFI, then you can avoid all these expensive regulations that are unnecessary, build up the nest egg for these small savers in Maine and elsewhere. Do you think that is a good idea, and can I get your commitment from you, Mr. Mnuchin, that you will help us down that path? Yes?

Secretary MNUCHIN. Yes.

Mr. POLIQUIN. Good, I want to make sure we all heard that. Thank you very much. Do you have any timeframe within which this great staff behind you, and others over at U.S. Treasury, will get to this project?

Secretary MNUCHIN. We will follow up with your office promptly and talk to you about that.

Mr. POLIQUIN. I appreciate that very much, thank you, sir. I am also guessing that you attribute our strong economy throughout the country, and better paying jobs and fatter paychecks—because of the lower taxes, and less regulatory environment in the country, is that correct, sir, in our economy?

Secretary MNUCHIN. That is correct.

Mr. POLIQUIN. Do you think it is a good idea, Mr. Mnuchin, that Congress should work toward certainty when it comes to the tax code for individuals and small businesses to make those lower taxes permanent so our economy can continue to grow and give more opportunities to our kids?

Secretary MNUCHIN. I do, and that is something we are already talking to Chairman Brady about, and the President is very focused on.

Mr. POLIQUIN. Wonderful. Last, sir, I introduced a bill this Congress, the Iranian Leadership Transparency Act, H.R. 1638, and 6 months ago when you were here, sir, we discussed it a little bit. This simply requires the United States Treasury to post on its website in several different languages including English of course, and the three languages used in Iran, to make sure the world and the Iranian people can see the type of wealth that has been built

up among the 70 or 80 Iranian political and military leaders, so they can see how they are being ripped off in order to promote the interests of these mullahs that chant, death to America.

Can I agree with you, or do we agree with each other that it is good, it is better for there to be more transparency for the world to see how this small group of political and military leaders whose suppressing their citizens in the country of Iran?

Secretary MNUCHIN. In general I support full transparency as it relates to the specifics, and us publishing that, that is something I want to talk to my group about and speak to you about.

Mr. POLIQUIN. I really appreciate that because that did pass this Committee and the house flew with a big bipartisan vote, and we greatly appreciate that support. Thank you very much, Mr. Secretary, for being here, I appreciate your candid answers.

Secretary MNUCHIN. Thank you.

Mr. POLIQUIN. Thank you, Mr. Chairman, I yield back.

Chairman HENSARLING. Gentleman yields back.

Chair now recognizes the gentleman from Arkansas, Mr. Hill.

Mr. HILL. Thank you, Chairman, appreciate the Secretary being with us today, thanks for your forbearance for all of our questions, and also appreciate your consistent voice and leadership on the success of the tax cuts, bill, and the regulatory reforms that the Treasury's been at the forefront of.

One thing I have heard I might say from a lot of my regulative financial institutions in Arkansas, that they like the appointees that are in the oversight. They like the S. 2155 which repealed some of the aspects of Dodd-Frank.

But they are still not necessarily seeing a change in the exam process or the impact of turning the Administration from a regulatory burden point of view. I would interpret that from a tailoring point of view. So I think that might be something in your FSOC capacity when you are talking to your colleagues you may want to consult on.

Also, speaking of the tax bill and regulation I think you are aware that some foreign banks who we want to attract the United States and set up intermediate holding companies here and prosper in America lending money here and serving clients in America, are put at a disadvantage potentially by the tax code and those who have the regulatory obligation of having a TLAC or a total loss absorbency capacity, regulatory requirements are in conflict some with the tax bill on how we tax dividends from foreign companies. Are you aware of this conflict?

Secretary MNUCHIN. I am extremely aware of this and we are working on specifics. We understand the conflict between the tax bill and the regulatory environment.

Mr. HILL. Good. I know you are in the right spot with the domestic finance and tax expertise to try to sort through how best—I hope you will bring it to the Legislative Branch if we need to take action on a resolution.

Secretary MNUCHIN. We are hoping that we can fix it without legislation, but if we can't, we will definitely come back and address it.

Mr. HILL. Good. Thank you. You also referenced to an earlier question about the GSEs and I share your concern. That is a some-

thing that in my long career in the public and private sector I have been focused on. I can remember David Maxwell when he was the CEO of Fannie Mae testifying to the Senate Banking Committee when I was a staffer about the essential nature that if Fannie Mae did not diversify its revenue sources it would go out of business, and that was back in 1983.

And I raise that issue because of while we all want to reform the GSE's, I noted that the FHFA has permitted the GSEs to engage in a number of new activities, a host of pilot programs which go well beyond their traditional secondary mortgage market role, and that is while the ghost of David Maxwell echoed in my head.

Don't you think that they ought to be focused on their core mission of secondary mortgage market to low and moderate income homeowners and not be allowed to go off and do things like competing with the private sector and potentially purchase mortgage service rights financing or private mortgage insurance. Are you aware they are submitting these pilot programs?

Secretary MNUCHIN. I am aware of it and generally I agree with you without commenting on every specific one. But yes, I think they should stay to their core business.

Mr. HILL. Thank you. I want to echo the comments of my Chairman. You know on the trade issue, there is no doubt that the Constitution enumerates the power that article 1 is responsible for regulating commerce between foreign nations, that is clear. And over the years since the 1930's, we have delegated under our oversight tariff setting parameters and certain other negotiating parameters to the Executive Branch and I think that is why you see the questions that Secretary Ross got in the Senate and that you are getting today.

We all have farm customers that are concerned about soybean prices and we have intermediate goods manufacturers concerned about the steel imports and aluminum imports. I hope you will be a voice for moving these discussions along quickly and also suggest ways other than a blanket across-the-board imposition of 232 tariffs under national security purposes, there are other ways to stop transshipments and other ways to be dumping steel and aluminum. And I would have preferred you going directly to China, to the point, and using 301 on steel and aluminum rather than the national security angle. Any comment on that?

Secretary MNUCHIN. I would just say as I said before, we are monitoring all these markets, soybeans, steel, aluminum, and everything else and we are looking at using 301 appropriately.

Mr. HILL. Thank you. I appreciate you. Mr. Chairman.

Mr. HULTGREN [presiding]. The gentleman from Arkansas yields back. The gentleman from Pennsylvania, Mr. Rothfus is recognized for 5 minutes.

Mr. ROTHFUS. Thank you Mr. Chairman. Secretary, I have previously expressed concerns about the financial stability board's designation of U.S. insurers as systemically significant.

These designations have typically proceeded domestic determinations and it is especially troubling that the FSOC has historically appeared to act as a rubber stamp to the FSB. I understand that the FSB is currently reevaluating its approach to systemic risk and is considering shifting to an activities based approach.

What is the U.S. position on using an activities-based approach to systemic risk as opposed to designated individual companies?

Secretary MNUCHIN. We absolutely support that; that is something we are shifting toward at FSCO as well and part of the reason why they are looking at it is because of discussions with us.

Mr. ROTHFUS. I understand that you are traveling to Mexico.

Secretary MNUCHIN. Yes.

Mr. ROTHFUS. I want to encourage you in your conversations with them about the importance of developing their economy down there, because the fact is we have a horrific drug problem here. And if you talk to the Mexican officials they believe that we're responsible because there is a demand-side part of the equation. The fact of the matter is they have not produced an economy down there where people are having the kinds of jobs that would keep them gainfully employed.

So I continue to watch the situation in Mexico with alarm. The impunity down there, the more than 1,000,000 people have been killed, very few prosecuted on that. So I encourage you in your talks with them.

While we are talking about Latin America though, illicit financial networks continue to facilitate drug, human, and weapons trafficking throughout Latin America. Groups like Hezbollah are especially active in places like the tri-border region in Venezuela.

This not only poses a threat to our national security and regional stability, it also enables bad actors across the continent to flood places like Western Pennsylvania with deadly drugs. What is the Treasury Department doing to target illicit financial networks in Latin America, including working with countries individually any leverage that we might have to organizations like the IMF or world bank.

Secretary MNUCHIN. I can assure you it is a big focus of ours. There is more work to do, but it is a big focus.

Mr. ROTHFUS. Are there specific groups or States that Treasury has prioritized in Latin America?

Secretary MNUCHIN. Again, I am happy to go through with you privately. There are a whole bunch of different areas that we are focused on there.

Mr. ROTHFUS. I want to thank you for your hard work on tax reform. Just 6 months after enactment, the American people are already seeing the benefits of this transformative law. Tens of millions of American workers are receiving bigger paychecks under the new withholding tables, four million workers have received bonuses, raises or expanded benefits, and over one million new jobs have been created.

For the first time in many years, there are more job openings than job seekers. This is bringing workers who were pushed to the sidelines during the previous Administration back into the labor force. The Tax Cuts and Jobs Act coupled with historic regulatory reform has once again made our country the land of opportunity.

The Tax Cuts and Jobs Act also established a program that will ensure that the benefits of our booming economy reach areas that have historically been overlooked, the Opportunity Zones Program.

My district in Western Pennsylvania has several designated opportunity zones including tracks in Beaver Falls, Midland, Johns-

town, and Aliquippa. These are strong communities that can once again thrive thanks in part to the attractive tax incentives offered for Opportunity Zone investments.

Can you provide an update on the implementation process for the Opportunity Zones program?

Secretary MNUCHIN. I am glad you have asked about that, because actually it is one of the most important parts of the tax plan that gets the least amount of attention. I think it is enormously powerful.

We have obviously been working with all the States on designations of Opportunity Zones, we have actually also traveled across the country in meeting with investors and other groups promoting this.

So this is something the treasury is very actively involved with, actually on my way to Puerto Rico next week, on my way to the G20, all of Puerto Rico is an Opportunity Zone. So something we are very excited about promoting.

Mr. ROTHFUS. Can you give us an idea of when we might see any final regulations that might be required to implement this?

Secretary MNUCHIN. I think you are going to see regulations soon and again, people will be able to invest in it. We have had very specific conversations with many investors about it.

Mr. ROTHFUS. Do you care to put some parameters around soon, can I push you a little bit?

Secretary MNUCHIN. Soon is this year.

Mr. ROTHFUS. Great. Is there anything that Congress can be doing to help facilitate this process?

Secretary MNUCHIN. No, I think we are all set, thank you.

Mr. ROTHFUS. Now that the U.S. has withdrawn from the Iran deal, we have the opportunity to use additional sanctions to change the hostile behavior of the Iranian government. How does the Administration intend to apply sanctions going forward to achieve the desired result?

Secretary MNUCHIN. Again, we are going to snap back all of the Iran nuclear sanctions, which are going in place, and we will continue to roll out non-nuclear sanctions as we have in the past.

Chairman HENSARLING. Gentleman's time has expired. The gentleman from Texas, Mr. Williams is recognized for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman, and, Mr. Secretary, thank you for being here and thank you for your candid testimony today. We appreciate that this morning and for your dedication to our country.

But this Congress and the Trump Administration are keeping the promises that they made to the American people, promises like rolling back regulations and reforming the tax code to make businesses more competitive and put more money in the pockets of hardworking Americans.

Unemployment is low, economic growth is high, and consumer confidence is skyrocketing. These are just a few examples of the United States' prosperous new trajectory under Republican leadership and under your leadership.

While these are promising signs, I share some of the concerns we have heard today from my colleagues regarding the impact of tariffs on American jobs and businesses. Tariffs are a cost directly

passed on to the consumer and risk damaging effects on the historic gains that we have made over the past 2 years, and I look forward to working with you and our trade representatives and the President to combat unfair trade practices, safeguard American jobs and promote free trade.

So, Mr. Secretary, as you are aware, I am a car dealer. We have talked about that. And members in both chambers of Congress are having difficulty understanding why we have imposed 232 tariffs on our allies.

And we should be acting in unison to prevent China's economic nationalism. We have also managed to impose tariffs on washing machines from South Korea, a time when we need a united front against Kim Jong-un, and soon we may be alienating Japan as well through national security tariffs against auto imports.

So my question is can you describe in detail the expected end game for these trade actions and what is the specific timeframe you expect for these policies to achieve their desired effect?

Secretary MNUCHIN. I think the end game is that we are focused on having free and fair trade for American companies and making sure that American companies can compete fairly. And as I have said, I put them in three buckets.

One bucket is NAFTA, Canada and Mexico, which are a big priority. That is something we are very focused on. The other is the E.U., the President was just in Europe having direct discussions with European leaders.

He is going to meeting with the E.U. later in the month. And the third is China, which unfortunately many of our talks have broken down and they have reciprocated with tariffs.

But again, I think our objectives are pretty clear.

Mr. WILLIAMS. Another question, now that the Administration has withdrawn from the JCPOA, how will U.S. sanctions bring about the behavioral change in Iran required for a long term suspension of the country's enrichment activities?

Secretary MNUCHIN. I think we are already beginning to see the impacts, so we have seen many companies already announce that they are going to be withdrawing from their investments there, I think we expect that the Iranian oil shipment will decrease significantly.

We are already having conversations with our allies about cutting their purchases. So I think we are beginning to see a tremendous impact.

Mr. WILLIAMS. And last, can you comment on Treasury's use of sanctions as a tool to cut off the flow of funds into North Korea's weapons program and how can we pressure countries such as China to do more and take a tougher stand against North Korea's weapons program?

Secretary MNUCHIN. I think the sanctions have been very effective, and I think that is a major reason why they have come to the table to negotiate and agreed to give up nuclear weapons.

And as I mentioned earlier, China has been a very important part of cooperating with us on that.

Mr. WILLIAMS. And I just want to close by saying thank you for being here, appreciate your effort, that of the President and speak-

ing somewhat from main street small business, let us keep what we are doing—business is good. Thank you a lot.

Mr. HULTGREN. Gentleman from Texas yields back, the gentleman from Minnesota, Mr. Emmer is recognized for 5 minutes.

Mr. EMMER. Thank you, Mr. Chair. Thank you, Mr. Secretary, for being here and sitting through this rather long hearing. Mr. Secretary, you have talked about the importance of initial public offerings (IPOs) as a means of creating capital.

You have done that before this committee during your last two visits. We have expressed our concerns, many of which you share with the overall reduction or lackluster performance of IPOs compared to historical trends. For its part, the committee continues to move legislation to build on the success of efforts like the JOBS Act to enhance capital formation.

Earlier this week the House unanimously adopted the Main Street Growth Act, which will allow for the creation of specialized venture exchanges to encourage small and emerging companies to go public and help them generate the investor attention and capital they need to be successful.

Encouraging more companies to participate in an IPO is one thing, but encouraging small, early stage companies to go this route is especially important. Based on your experience in the financial sector, can you speak to why it is so important for new and emerging companies to go public, how these new early stage entrants make our markets more dynamic and help business and everyday Americans alike?

Secretary MNUCHIN. Despite the fact that there is an abundance of private capital right now for early stage companies, the IPO market has always been critical and public financing that is what has made all of our companies very successful, access to the most liquid capital markets in the world to grow and raise capital.

And we look forward to working with you on it.

Mr. EMMER. Thank you. I understand the treasury is—and I think Mr. Hultgren and others may have referred to your upcoming reports, so I apologize because we come and go.

But I understand you are getting ready to release your fourth and final report on financial innovation, in accordance with the President's 2017 Executive Order.

I have been taking a closer look at how advances in financial technology can be used to help entrepreneurs start a business and improve the way they operate or enhance their access to capital. I think you were asked, but I wasn't clear, and again, I was coming and going, can you give us a timeframe first on when you expect that report to be out?

Secretary MNUCHIN. As I mentioned, I have just recently reviewed a draft of the report, so I would hope it comes out in the next 30 days.

Mr. EMMER. All right, and again I don't mean to cover old ground, but I just want to be clear, because one of the statistics that I found very concerning of late is that the percentage of Americans under 30 years of age that own a private year business is at a 24 year low, having fallen to just 3.6 percent.

This figure, as recent as 2010, stood at 6.1 percent, and its peak stood at over 10 percent in 1989. You commented a little bit ear-



lier, or at least you were asked, about the FinTech issue. Is the draft you reviewed, and I didn't hear it clearly, is that going to be covered in that draft?

Secretary MNUCHIN. Yes, a lot of those issues will be addressed.

Mr. EMMER. OK, wonderful. Last, I want to ask you, you are no stranger to the complexity of the Bank Secrecy Act and the Anti-Money Laundering Regulatory Structure. Last summer, when you testified before this committee, Representative Luetkemeyer asked about ways to improve the regulatory harmonization of our BSA/AML system.

The committee has been working on legislation to encourage Treasury to take a more prominent role in coordinating BSA/AML policy and implementation, which I believe most of our financial institutions and entities support.

As this committee and this Congress continue to work on this issue, are there any additional efforts underway at Treasury to improve regulatory harmonization among the other Federal regulators when it comes to our BSA/AML regulatory structure?

Secretary MNUCHIN. Yes, we have a team that is working on that now, so both a team at Treasury in our TFI area, FinCEN, they are working with the OCC (Office of the Comptroller of the Currency), the Fed, and others, so that is actively underway.

Mr. EMMER. And do you anticipate they will put out some type of report? Obviously they will report to you, but will we have an opportunity to see what the recommendations and suggestions are and will we play a role—

Secretary MNUCHIN. I am not sure it will be a form of a report, but we will make sure we communicate back to you in terms of us putting out some type of guidance or general comments along this.

Mr. EMMER. Excellent, I will look forward to that. Thank you for your time, sir. I yield back.

Mr. HULTGREN. The gentleman from Minnesota yields back. The gentleman from Michigan, Mr. Trott, is recognized for 5 minutes.

Mr. TROTT. Thank you Chairman, thank you, Mr. Secretary for your time today and all of your tremendous work on our economy and job growth, it is just amazing. One of the benefits of going toward the end of the batting order is I get to listen to all of my colleagues and take license to respond to some of them.

So for the record, I do consider you to be a stable genius.

Secretary MNUCHIN. Thank you, I take that.

Mr. TROTT. Please take it as a compliment.

Secretary MNUCHIN. The fact that I lasted this long means by definition, I am.

Mr. TROTT. For the record, Mr. Meeks is misguided when he suggests you go back and admonish the President to fill the Ambassadorships. The real problem we all know is the Senate. There are 569 bills that have been passed out of the House that are dead in the Senate, and I, for one, am happy they are going to have to be here in the month of August to get some work done, and hopefully they will confirm a few Ambassadors.

Mr. Scott from Georgia suggested that his State would be the most hard hit State by the trade war. I take issue with that, my State of Michigan no doubt will suffer the most if the trade war ends badly. Here's my concern, and I spent 30 years in business,

did a lot of deals, found working collaboratively rather than a scorched earth approach was much more productive.

And when you consider the President's comments in Quebec, his comments yesterday in Brussels, the comments about the wall, I worry that it is going to be difficult to reform NAFTA in a way that won't end up hurting my State, the State of Michigan.

By the way, my district has the largest number of Ford Motor employees of any districts in the country. And so I would just like your thoughts, you said you have been to Canada, you are going to Mexico. I would like to have some insight from you on how you address some of the bluster from the President, which again China's a whole different story, you said it is complicated, so we will talk about China another day.

But with respect to our allies, I would like to know we are going to end up in a good place, particularly as it relates to my State of Michigan.

Secretary MNUCHIN. Yes, I am cautiously optimistic, but I expect we are going to end up in a good place, and that is a major priority of Ambassador Lighthizer and the entire economic team.

Mr. TROTT. I think the rhetoric though, just to be more specific—I think when you look at Prime Minister Trudeau, for example, after Quebec, I think it makes it more difficult for him to reach a fair and free trade agreement with the United States.

Because if he does, in the politics in this country, I think he will be lambasted. So for whatever that is worth, I think there's a time and place for tough rhetoric. I do worry as it relates to trade and our allies. In response to Mr. Ross, you suggested that in the next Congress, housing finance reform would be a priority. And I am glad to hear that, because I do worry that we are moving toward more relaxed underwriting guidelines that could allow history to repeat itself. With respect to Fannie and Freddie, you had mentioned in your earlier comments that you would like to see a bipartisan solution.

That would be great. It has been very elusive for this Congress to come up with a bipartisan solution on housing finance reform, 10 years in the making perhaps. So assuming that is not possible, which is not a big leap of faith, would you support in the 116th Congress a more simple approach, which is just to get Fannie and Freddie out of the second mortgage market and to get them out of the refinance market?

Refinance loans represent two-thirds of Fannie and Freddie's portfolio, that alone would significantly over time diminish the Government's role in housing finance.

Secretary MNUCHIN. Again, I want to be careful of specific comments, but I don't support them getting out of the refi market broadly. I think that refi loans are underwritten properly, and there should be certain limitations on cash out and other things.

But rates go down and homeowners want to refinance, I don't think they should be penalized.

Mr. TROTT. But again if rates go down and they have a good credit score and they refinance and then property values drop, then the government essentially can be exposed again.

Secretary MNUCHIN. Again, without getting into all of the details, I think that the problem that Fannie and Freddie had was really

a result of poor underwriting standards and buying many loans, sub-prime loans and other things that they never should have been purchasing.

So I think that there is a prudent solution. My preference is we do this through Congressional action, if not, we will look at administrative options.

Mr. TROTT. Thank you, last question. The Orderly Liquidation Authority outlined in Title 2 of Dodd-Frank continues to be a concern, because I believe it to be a license for FDIC to use taxpayer dollars at Treasury to bail out banks.

Will you—you think that should be a priority in the next Congress, to try and revisit that process so that we can come up with a better solution?

Secretary MNUCHIN. I think there are recommendations we have made on that, and we would be happy to work with you and others if there's a desire to move forward on that.

Mr. TROTT. Thank you, Mr. Secretary. I yield back.

Chairman HENSARLING [presiding]. Gentleman yields back, the Chair now recognizes the gentleman from North Carolina, Mr. Budd.

Mr. BUDD. Thank you, Mr. Chairman.

And thank you, Secretary Mnuchin, for being here. It is good to see you again. I want to start by commending you for your role in implementing and promoting the Tax Cuts and Jobs Act. As many of us have thanked you, I want to continue in that.

We are growing at 3 percent. Some would say even more. And I know I speak for a number of us gathered here today, that we appreciate the role you played in that.

But since this is a hearing on the state of international financial systems, I wanted to switch from H.R. 1 and move to some questions that are of importance to me and many in the American insurance industry.

Mr. Secretary, we operate under a State-based system of regulation. The U.S. insurance market has long been one of the largest insurance systems in the world. In fact, more than half of the world's 50 largest insurance markets are U.S. States.

North Carolina's market, for example, the State I hail from, is bigger itself than the entire markets of Belgium, Sweden, Denmark, and Finland. Yet, U.S. officials have been engaging in overseas negotiations that would ultimately import European-style capital standards for U.S. companies and their policyholders on Main Streets across America.

This is why I co-sponsored and voted to pass Chairman Duffy's International Insurance Standards Act on Tuesday, to protect our companies here at home from being harmed by European-centric regulation.

So, Mr. Secretary, would you agree that the U.S. system of State-based insurance regulation works well? That it is well-capitalized, solid for the most part, and that it is important for the Treasury Secretary to defend that system from the intrusion of both Federal and foreign regulation?

Secretary MNUCHIN. I do.

Mr. BUDD. So at the risk of sounding like my high school English teacher a bit, would you care to elaborate? If you care to share a little more on that?

Secretary MNUCHIN. In general, we very much support the State-based system. It works. It has worked well. There are certain issues that, again, do require some Federal intervention and oversight.

But this is a system that works. It is not broken and we don't need to change it. And we need to make sure that U.S. companies that do international business can operate appropriately, and that is the reason to participate in the international forums. But we are not looking to change the system.

Mr. BUDD. Very good. Thank you for that. So just to point out, from many on the committee's perspective, one reason that we passed Duffy-Heck is because we feel like U.S. interests aren't being represented well overseas. If that is the case, then Congress will step in, in a bipartisan fashion, as referenced by this week's unanimous vote.

So switching briefly to another topic, Mr. Secretary, some have called for Congressional action to improve and expand upon existing information-sharing tools between financial institutions and government authorities, as well as among financial institutions in cases of suspected money laundering and terrorist financing, including changes to the scope of liability safe harbors and the types of information that may be shared.

Can you please discuss Treasury's relationship with the private sector to enhance and facilitate counterterrorist financing objectives?

Secretary MNUCHIN. We work very closely with the private sector. It's very important to—I think I mentioned in the past, terrorist financing is a major priority of the department and a major priority of mine, and I think we have a very good collaborative effort with the private sector.

Mr. BUDD. So although Congress—just to follow up on that—although Congress intended Section 314(b) of the PATRIOT Act to allow banks to share information on illicit financial activity between themselves, banks have felt constrained by the rules interpreting that statute.

So is it time to readdress this issue, in allowing banks to better share such information with appropriate safeguards, I would add?

Secretary MNUCHIN. That is a specific issue that we are working with them on, yes.

Mr. BUDD. Thank you. Would you be supportive of legislation that achieves that objective?

Secretary MNUCHIN. I would, but we would want to make sure we work with you on the specifics of that.

Mr. BUDD. Absolutely, and thank you. And, again, thank you again for being here.

Mr. Chairman, I yield back.

Chairman HENSARLING. Gentleman yields back. The Chair now recognizes the gentlelady from Utah, Mrs. Love.

Mrs. LOVE. Thank you, Mr. Chairman.

And thank you, Secretary, for being here today. I just want to be very clear that the questions that you are getting today, I usu-

ally go into my district and ask them what questions they would like me to ask of the secretary. So just know that these are coming from people who have genuine concerns.

You are before Congress today—and forgive me, also, if you have answered some of these questions. I need to make sure I get some of these on record. So you are here before Congress today to report on the status of international financial systems including the U.S. involvement in the International Monetary Fund.

In its recent World Economic Outlook, the IMF expressed concerns that the prospect of trade restrictions and counter-restrictions threatened to undermine confidence and derail global growth prematurely. Do you share those concerns?

Secretary MNUCHIN. I don't. And I would just comment, although I support the IMF, I also question some of their projections on the U.S. economy as well.

Mrs. LOVE. OK. Back in May 20th, you were quoted as saying that tariffs were on hold. Yet, less than 7 weeks later, new tariffs on Chinese goods went into effect and were immediately met by retaliatory tariffs by China.

Clearly, other people in the Administration weren't as interested in keeping things on hold. In the meantime, I heard a lot of concern from many different people in Utah, industries in Utah, about the negative impacts that they are already seeing from the uncertainty and the new tensions in our trading relationships.

Just yesterday, I actually had a small business owner from my district come to my office—Utah Metal Works which recycles metal and sends about 40 percent of its business overseas.

They are suffering from uncertainty and they want to see an agreement be reached. Not just the President beating up on trading partners. At the end of the day, they want to see some results, that it is not going to impact their consumers.

So do you know what the end goal is? Is there a master plan? I am trying to figure this out. We are answering questions of our constituents, and it is very difficult to try and figure out what the strategy is.

We know what the end goal is. But do you know what the strategy is? Do you know if there is, like, a master plan?

Secretary MNUCHIN. First, let me say, the tariffs were on hold. We were close to having an agreement. We couldn't reach an overall agreement and that is why the President decided not to keep them on hold.

As it relates to a master plan, it is pretty simple. We have told China. We have given them a long list of issues. I think the answer is, we want to make sure that they open up their markets and that they treat our companies fairly so that we can increase exports.

I think you know, they buy about \$130 billion of our goods, we buy about \$500 billion of their goods. There is a huge opportunity, if our countries can compete fairly, to increase exports significantly. So the master plan is for them to open up.

Mrs. LOVE. The Federal Reserve, said last week, right before the new tariffs on China imports were imposed, that the possibility of a trade war has forced some companies to put on hold their investment plans.

So we now find ourselves in a situation where the uncertainty over global trade policy is causing businesses to scale back or postpone their capital spending plans, plans that were incentivized by what we did in Congress in terms of implementing the new tax law.

And tariffs, on the other hand, we all know, are really attacks on the consumers. And it will hit American businesses and consumers. It seems like one hand is contradicting what the other hand is doing, and they are not working.

What are you doing with the Administration to ensure our trade policies don't undermine that growth that we are seeing, that positive growth that we are seeing in our businesses and that we are experiencing?

Secretary MNUCHIN. Let me first say tariffs are sometimes paid by the consumer and sometimes they are paid by the seller and absorbed by the seller. So I don't believe they are necessarily always a tax that is passed on.

I would also just say that the President is very focused on economic growth, this is something that he campaigned on. From the beginning, we have been focused on regulatory relief, taxes, and trade, and I can assure that we are not going to do anything that is going to jeopardize the great growth of the economy, although I recognize there are certain areas in certain markets that have been targeted, that we need to be careful and sensitive to.

Mrs. LOVE. You do recognize that uncertainty does hurt our economy, and it really makes it difficult for people to invest, so—

Secretary MNUCHIN. I recognize—

Mrs. LOVE. Just the uncertainty is—anyway, I implore that you would work to end this thing soon. Thank you.

Chairman HENSARLING. Time of the gentlelady has expired, the Chair wishes to inform members that votes on the floor are imminent and for agreement with our witness, he will be released no later than 1:15. Currently I expect to clear three more members.

Gentleman from Georgia, Mr. Loudermilk, is now recognized.

Mr. LOUDERMILK. Thank you Mr. Chairman and thank you Mr. Secretary for spending a good part of your day with us. I know this is probably not the most entertaining nor the most productive thing you could be doing today, but it is very important for us, it is very important for our republic to do this.

Real quickly, just one issue I want to touch on, and it is something that I am hearing when I go back to Georgia, especially from local banks and credit unions, is the FinCEN customer due diligence rule. And most of them feel that a part of it is very intrusive and burdensome.

And they are still unclear on a lot of the compliance, and they find it very difficult to implement because of the lack of clarity. And if I can, I would like to share just a few anecdotes of some of the things that I have been told recently by these banks.

One of the most common frustrations is that FinCEN has been very vague in telling banks what to do if a new customer wants to open an account, but can't provide the required information. They say the OCC has indicated they shouldn't even open the account in that case, and that FinCEN has provided no guidance on the issue.

Another one is if an existing customer wants to open a new account but is unable to provide the required information or refuses to do so, should the bank terminate the entire relationship or just not open the new account, since the rule went into effect on May 11th.

If the bank closes all the accounts, is that frowned upon as de-risking by the regulators? So they get caught in this no win situation. But if they do open the account, many times they feel they are in violation of the regulation.

And so this has resulted in significant delay for a lot of the customers. Another problem is when a customer opens a new account, then 2 weeks later they want to get a debit card, and a month later they want to enroll in online banking.

The banks don't know, do they have to fill out the forms again for each one of those events? Some banks have used forms that simply certify that the beneficial ownership hasn't changed, but bank examiners say that is not acceptable.

Another main concern is that banks are now having to ask people, who have been their customers for years, even decades, for this information. The customers don't understand why their bank is asking them, and now they think that the bank no longer trusts them and it hurts the foundation of the bank's relationship with the customer.

An example, a long-time customer simply changes their address, nothing else is changed other than their new address. The new beneficial ownership forms have—do they have to be completed? This also applies to routine renewals of lines of credit, certificate of deposits, et cetera.

And the last one, the rule is also causing issues for accounts that may not have clear beneficial owners, such as accounts for class reunions, civic organizations, school clubs, and churches. In one case, a child was recently diagnosed with cancer and the school did a fundraising campaign to help the family.

The mother worked at the school and was a customer of the bank, but the bank turned her away because they were afraid of getting the beneficial ownership questions wrong. So my question is, I am sure you are aware of these problems. And since FinCEN currently does not have any plans to issue formal guidance for the CDD rule, what would you suggest that banks do to get clarity on these specific issues?

Secretary MNUCHIN. You have asked some very good questions, many of which I am not going to answer the specifics of, but I will follow up with FinCEN and the OCC and others, because as I have said before, I am a big fan of proper regulation, but I am also a big fan of proper guidance so that they can follow the regulation.

And I think you have raised a bunch of issues. I will say as a broad comment, customer due diligence is very important. We need to have banks know their customer, and we need to get this right between what is particularly on small banks a big burden and the customer in making sure we have the information.

I have been a customer who has to provide this stuff and I know it is quite difficult, and many of the minor changes we should make sure that the banks know how to deal with these issues.

Mr. LOUDERMILK. OK, and I thank you and I look forward to your response on these in a little more detail. Mr. Chairman, I yield back.

Chairman HENSARLING. Gentleman yields back, there is a vote pending on the floor a little over 10 minutes. The Chair expects to clear two more members, but restrict them to 3 minutes. The gentleman from Ohio, Mr. Davidson, is recognized for 3 minutes.

Mr. DAVIDSON. Thank you Chairman. Mr. Secretary, thank you very much for your testimony today. And as CDD has been discussed extensively, I appreciate your sentiment that perhaps a heavy hand of government isn't necessary and perhaps the presumption might resemble the way we treat the Second Amendment more than the way that we treat other things, where everyone's held liable to provide information, subject to criminal penalties if they don't.

I don't think we need to find new ways to make more people criminals. We do need to get after the terrorism and illicit finance that is out there. And I think that is the sentiment that unites us. The approach has us fairly divided, so I really look forward to any way to collaborate on CDD or beneficial ownership more broadly.

I really appreciate the emphasis you have given as Secretary to terrorism and illicit finance, and we saw that marginalize and take a backseat under the previous Administration. Without going into any of the details in this setting, are Operations Cassandra and Reciprocity back on the table now?

Or is there—what is the status of those efforts?

Secretary MNUCHIN. The things are being considered.

Mr. DAVIDSON. So you are still assessing whether to pursue those investigations?

Secretary MNUCHIN. I want to be careful on commenting on the specifics.

Mr. DAVIDSON. OK, thank you. We have talked a lot about trade, and there has been a lot of attention given to trade deficits. And, mercantilism emphasized the importance of trade deficits, and of course under mercantilism we were largely using gold to settle current accounts. And gold can be hoarded, so there was an idea that it was a zero-sum game.

Today, we don't have that. We have something consumable, the petro dollar, basically the premise for our currency. And it is consumed, so people don't hoard it. Trade deficits are commonly misunderstood as a zero-sum game.

Are you confident that the dialog that is being had today, as we negotiate with our allies and with our competitors, strategic competitors in the marketplace, that we are focused on free, fair, reciprocal trade and not a more mercantilist zero-sum idea?

Secretary MNUCHIN. I am completely. But in many of the cases where we have the trade deficits, it is because there are unfair trade practices in place.

Mr. DAVIDSON. There are certainly unfair trade practices. Prior to coming to Congress, I was a manufacturer and have been on the receiving end of many of those unfair trade practices.

However, the deficit is largely attributable to the current account balance. So we have the free flow of goods and services, but we also have the free flow of capital. Could you address the idea that, in



reality, the only likely way for us to decrease our deficit is to enter into a recession?

Secretary MNUCHIN. No. I don't agree with that at all. But we can follow up on that.

Chairman HENSARLING. Time of the gentleman has expired. The Chair now recognizes the gentlelady from New York, Ms. Tenney, for 3 minutes. She will be the last member recognized before we dismiss the witness.

Ms. TENNEY. Thank you, Mr. Chairman.

And thank you, Secretary Mnuchin, for being here. And I always get to be last. So you get to be—just a little commentary and some quick questions.

I do appreciate the President's position, and your position on realigning our global markets and making sure that anyone who has access to the greatest marketplace in the world, the U.S., does it in a fair and reciprocal way.

Although I am concerned, and I am just going to express this because I know you have answered it—a little bit about what is happening in New York State in my rural district, where dairy is one of the number one industries.

And we contend that we think that Canada has violated Class 7 pricing. I know there are some differences of opinion on that. I would like to—and obviously, New York State, we have trouble with an oppressive tax-and-spend regime in Albany that has made it really difficult for our dairy farmers to survive.

But also another area is in crops and particularly hay and that, again, gets back to where we are going with the trade and the tariffs and the ability of Canada and other border countries to be able to dump agricultural products on the U.S.

And I just hope that, I know you have answered some of these things, but I just want to bring those to light because they are happening in New York State and I want to be sure you are aware of those.

Also, I am sure the President, and comments made by my colleagues on the other side, is delighted that he is occupying some rent-free space in their head because they are reading his Twitter account with regularity.

So I thought that was amusing. But I do happen to think that you are a stable genius, and I do think the President's geopolitical and political instincts are proving to be, maybe true.

So I want to get to something beyond that, and a little bit back and maybe a deeper dive into the idea of Iran sanctions and the Iranian state model.

And I know going through, just quickly, we know you have highlighted a little of this. But the waiver on the Islamic Republic of Iran broadcasting, that actually expires, those sanctions expire today.

Do you believe it is in the best interest of our Nation to allow them to expire, and would you be willing to reinstate those sanctions in light of the Administration's policies toward Iran and the fact that OFAC has already placed the IRIB under direct general sanctions? Would that be something you could support as of today?

Secretary MNUCHIN. Again, I would rather you follow up with us privately and I get your views because it sounds like you have an opinion on this. So I would like you to share it with us privately.

Ms. TENNEY. Thank you. Yes. I know it is something that is headlining today, and it is happening and the past Administration was pursuing waivers and I just want to know where we are going to go today.

We know that some of the resources that have been used under the former JCPOA, were used for terrorist means. So I appreciate you getting back to us.

And thank you again. I am running out of time, but thank you again for your great work and the Tax Cuts and Jobs Act have been a difficult process, but have been a godsend for my region and I have yet to go to a business, small, medium or large, that hasn't praised the tax cuts and talked about new jobs, raises and bonuses for their employees, and especially their middle-income taxpayers. Thank you so much for that.

Chairman HENSARLING. Time of the gentlelady has expired. I would like to thank our witness for his testimony today.

The Chair notes that some Members may have additional questions for this panel, 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 these witnesses and to place their 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 1:12 p.m., the committee was adjourned.]

# **A P P E N D I X**

July 12, 2018

**Statement of  
Steven T. Mnuchin  
Secretary  
United States Department of the Treasury  
before the  
Committee on Financial Services  
United States House of Representatives  
July 12, 2018**

Chairman Hensarling, Ranking Member Waters, and members of the Committee, it is good to be here with you today to discuss the National Advisory Council on International Monetary and Financial Policies (NAC) report to Congress, and other priorities of the Treasury Department.

The NAC report highlights international financial institutions' (IFIs) role in encouraging global macroeconomic growth and financial stability, advancing U.S. national security priorities, supporting the development of markets for U.S. businesses, and working to alleviate poverty. Treasury has promoted reforms at the IFIs to help them better contribute to these objectives, and we will continue our efforts to increase the IFIs' effectiveness and value to taxpayers.

I would note that the International Monetary Fund's (IMF) periodic review of quotas is scheduled to be concluded next year. Every five years, the Fund reviews its financial resources and decides whether to increase them. At this time, the United States finds that the IMF's overall resources are adequate following the 2016 implementation of the 2010 Quota and Governance Reforms.

I also want to highlight the strength of the U.S. economy as we continue to implement President Trump's economic agenda focused on tax cuts, regulatory reform, and trade. In only six months since the passage of the Tax Cuts and Jobs Act, Americans are seeing faster GDP growth, more money in their paychecks, and better career opportunities. Unemployment numbers are historically low, with an

average of over 200,000 jobs added each month of the second quarter this year. Over 500 companies have announced bonuses, wage increases, and enhanced benefits. The National Federation of Independent Business, the National Association of Manufacturers, and the Consumer Confidence Index are all reporting record levels of optimism. Americans are keeping more of their hard-earned money, and U.S. businesses are more competitive.

Our efforts to eliminate unnecessary burdensome regulations are also having a tremendous impact. We have worked closely with this Committee and others in Congress, as well as our colleagues across the Administration, to create a regulatory environment that is more efficient and predictable for businesses. These reforms are enhancing the flow of credit and supporting job creation and wage growth. At the same time, we remain committed to ensuring the stability of the financial system and protecting taxpayers and consumers.

Our tax and regulatory reform agenda complements our trade efforts. We strongly support Congress' bipartisan effort to strengthen and modernize the Committee on Foreign Investment in the United States' (CFIUS) review process and its inclusion in the National Defense Authorization Act. The Administration is pleased to work with members to maintain our open investment environment while ensuring that certain transactions are reviewed for national security purposes.

We have made great progress in the last eighteen months implementing the President's agenda. We are working every day to guide multilateral financial organizations toward a limited role that is more consistent with free markets, faster growth, and U.S. national interests. Hardworking taxpayers across the country are optimistic that they will have a more prosperous and secure future, and we are seeing America's growth potential come to fruition.

Embargoed until 10:00 a.m. ET on Thursday, July 12, 2018

Thank you very much. I look forward to answering any questions you may have.

QUESTIONS FOR THE RECORD  
CONGRESSWOMAN JOYCE BEATTY (OH-03)  
COMMITTEE ON FINANCIAL SERVICES HEARING, JULY 12, 2018  
“THE ANNUAL TESTIMONY OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE  
INTERNATIONAL FINANCIAL SYSTEM”

Question #1

Last February when you testified before this Committee, I had asked questions regarding Treasury’s compliance with Section 342 of Dodd-Frank, better known as the section that established the Office of Minority and Women Inclusion at your agency. You stated that, despite the requirements laid out in Section 342 of Dodd-Frank, you had not met with Treasury’s OMWI Director and you did not even know who that person was. When I asked what you were going to do about that you replied, “I’m going to get back to you tomorrow, you have my commitment on that.”

Well, Mr. Secretary, tomorrow came and went and not you or anyone from your office contacted me or my office. Because I never heard from your office, I reached out and sent a letter to the Department of Treasury’s Inspector General regarding your department’s compliance with Section 342 of Dodd-Frank and the results of that investigation were not great. That investigation found that the Director of the office was the only member of the Office of Minority and Women Inclusion, while other OMWI offices in other agencies have a staff of a dozen or so.

It seems to me that being the only staff member of an entire office within your department would make it difficult, if not impossible, to meet the statutory obligations of Section 342 of Dodd-Frank. The Inspector General seemed to agree. In the letter I received from the IG, he stated “we believe it would be prudent for Treasury to review the responsibilities of [the Department’s] OMWI and determine if the current and planned staffing levels are adequate to meet those responsibilities.

1. Do now meet with the OMWI Director on a regular basis?

*Answer: I’ve had the opportunity to meet with Dr. Lorraine Cole, who heads OMWI for Treasury Departmental Offices, numerous times this year. On February 1, Dr. Lorraine Cole joined me in a meeting on the topic of urban revitalization arranged in collaboration with the White House. On February 15, she participated in an event that I hosted with about 30 African American business people in recognition of Black History Month. On March 6, she provided a briefing to me on the status of business diversity, workforce diversity, and workplace inclusion within Treasury Departmental Offices. I currently meet with Dr. Cole on a regular basis to receive updates on diversity and inclusion within the Departmental Offices – most recently on August 22, 2018 and on November 2, 2018*

2. Per the IG’s recommendation, have you and your staff made a decision as to whether or not you believe the current staffing levels of your Department’s Office of Minority and Women Inclusion – which until recently was only 1, the Director – are sufficient to carry out your responsibilities to comply with Section 342 of Dodd-Frank?

*Answer: In August 2016, the Inspector General reported that “Treasury DO’s Office of Minority and Women Inclusion is Generally Carrying Out its Functions Consistent with Dodd-Frank Act.” At the time of the report, OMWI operated with a single employee, OMWI Director, Dr. Lorraine Cole. Recently, OMWI added a staff member to assist further in the duties of the office. Given the close coordination between OMWI, Treasury’s Office of Civil Rights and Diversity, and the Office of Small*

*and Disadvantaged Business Utilization, I believe Treasury has the appropriate resources to satisfy the requirements of Section 342 of the Dodd-Frank Act.*

Question #2

According to the Federal Reserve Bank of New York, Americans now hold more than \$1.4 trillion in student loan debt. Earlier this year, Congress passed S. 2155, which included a bill I had introduced in the House called the Financial Literacy College Education Act, H.R. 5277. This bill requires the Financial Literacy and Education Commission to establish and publish best practices for teaching financial literacy for institutions of higher education and to provide useful and necessary information to assist students at institutions of higher education when making financial decisions related to student borrowing.

As you know, the Commission is made up of the heads of 20 federal agencies, including the Treasury Department, and is Chaired by you, the Secretary of the Treasury. I understand the Commission last met in May and will likely meet again sometime this fall. Can you assure me that this provision from S. 2155 will be on the agenda at the next meeting and the Commission will do its part to implement this critically important provision that seeks to advance financial literacy and resources for our students?

**Answer:** *The Financial Literacy Education Commission will do its part to comply with the provisions in S. 2155 and advance financial literacy resources for students. A working group has been established to gather input from diverse and relevant stakeholders in order to develop best practices for higher education institutions to provide quality financial education to student populations on the issues raised in the Act.*

Question #3

In a recent article published by Bloomberg entitled, "Treasury Struggles to Keep Staff in Unit at Heart of Trade War," the found that "[a]bout 20 career staff have quit the U.S. Treasury Department's international affairs unit in less than a year." The article goes on to report that these departures largely began after David Malpass, Under Secretary for International Affairs, took over the division.

1. Can you respond to the allegations made by this article?

**Answer:** *We have a very high-caliber civil service working within the Treasury Department, as well as highly qualified Administration appointees. The International Affairs (IA) office is exemplary, and we could not fulfill our mission without the deep expertise and passion for public service shown by all employees. With the recent lifting of Treasury's hiring freeze, we are beginning external recruitment consistent with the Administration's commitment to very high standards for federal employees.*

2. Specifically, how many employees have resigned, moved, left, and/or asked to be transferred from the Treasury's Office of International Affairs since Under Secretary Malpass has taken the helm of the division?

**Answer:** *The federal government-wide hiring freeze established in January 2017 and lifted in April 2017 was extended by Departmental Offices (DO) until the spring of 2018 when DO had its final appropriation for the year. These restrictions heightened the impact of International Affairs' (IA) routine attrition. IA has long been a cadre of highly talented professionals whose expertise is regularly sought after by banks, law firms, and international organizations. This pattern continues to this day. Of the 179 permanent staff on board in August 2017, no staff have asked to be*



*transferred. Twenty four staff left IA for new opportunities, excluding staff who reached the end of term or temporary employment. Today, IA's headcount is 164 and growing, the result of recent successful recruitment.*

3. Do you plan to fill these vacancies with outside hires or internal candidates, if you plan to fill the vacancies at all?

*Answer: IA is actively recruiting externally to fill key positions while also evaluating strong internal candidates for promotion and will backfill as appropriate.*

4. Do you have confidence in Under Secretary Malpass and his ability to lead the Treasury's Office of International Affairs?

*Answer: Yes, Under Secretary Malpass is a key part of Treasury's leadership team and has enjoyed a strong relationship with me since the campaign. His expertise on international finance has been critical in advancing the key priorities of the Department and the Administration.*

#### Question #4

It has become common practice for the U.S. Secretary of the Treasury Department and the Chair of the Board of Governors of the Federal Reserve System to meet regularly, on a weekly basis. In fact, it is widely known that you met weekly with then-Chair of the Federal Reserve, Janet Yellen.

1. Do you meet regularly with Chair Powell?

*Answer: Yes, Chairman Powell and I continue to meet regularly.*

2. If so, have you ever conveyed to him the Administration's stated desire for the Federal Open Market Committee to raise interest rates "very slowly" as stated by the White House National Economic Council, Larry Kudlow?

*Answer: No. The Federal Reserve acts independently in setting monetary policy, and Treasury respects that independence.*

#### **Gwen Moore Question For Record**

#### **Annual Testimony of the Secretary of the Treasury on the State of the International Financial System July 12, 2018**

In the years since the economic crisis and Dodd-Frank's enactment, we gained significant experience with the FSOC designating and de-designating nonbank financial companies as nonbank SIFIs. In my view, the goal of containing systemic risk and protecting taxpayers can best be accomplished by focusing first on activities that could create systemic risk across the economy, and working with a company's primary regulator to address these activities across a sector. This "activities-based approach" does not preclude the FSOC from designating a company, but would simply mean that the FSOC first addresses activities holistically, not simply in one individual company. Do you believe that approach would be useful for FSOC?

*Answer: Treasury recommended in its November 17, 2017 report on FSOC designations that the Council should prioritize identifying particular financial activities or products that could pose risks to U.S. financial*

*stability. The report noted that if the Council identifies a potential risk to financial stability, the Council should work with the relevant primary financial regulatory agencies to address the identified risks. Council members are considering the recommendations made in the report, and I look forward to working with them to determine how best to implement the recommendations.*

**Questions for the Record**  
**“The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System” FC Hearing**  
**Thursday, July 12th at 10:00am**  
**Congresswoman Kyrsten Sinema**

All questions directed to Secretary Steven T. Mnuchin, U.S. Department of the Treasury.

The Arizona Chamber of Commerce notes that a trade war immediately threatens over 250 million dollars’ worth of Arizona exports and the 772,800 Arizona jobs supported by global trade. 88% of Arizona exporters are small or medium-sized businesses, making the effects of trade war particularly acute for Arizona entrepreneurs and family-run businesses. Job-killing tariffs will target Arizona-made agricultural goods like apples and cotton, imperiling the livelihoods of Arizona family farmers. Tariffs also impose costs directly passed down to consumers, forcing Arizona families to pay more for their everyday purchases. What is the Treasury Department doing to minimize the negative impact of these tariffs on Arizona businesses, family farmers, and consumers?

*Answer: Small and medium enterprises are the backbone of the U.S. economy. The Administration is working to ensure balanced trading relationships in which U.S. firms and workers are protected against unfair foreign trade practices.*

What actions will Treasury take and what resources will it need to respond to entities continuing to engage Iran in violation of any re-imposed sanctions?

*Answer: As we continue to implement the President’s decision to cease the United States’ participation in the Joint Comprehensive Plan of Action (JCPOA), we intend to impose unprecedented financial pressure on the Iranian regime until it returns to the negotiating table ready to make meaningful concessions. We have already begun reimposing some of the sanctions that were relieved under the JCPOA following the end of the 90-day wind-down period. And, after the 180-day wind-down period ends on November 4, 2018, the remaining sanctions that had been lifted under the JCPOA will come back into effect. We will fully enforce the sanctions reimposed against Iran, and those who fail to wind down activities with Iran risk severe consequences. We will also continue to enforce fully our authorities that have always been in place with respect to Iran’s human rights abuses, censorship, support for terrorism, WMD proliferation, support for the Assad regime, and cyberattacks. In fact, under this Administration, OFAC has issued 19 rounds of sanctions targeting Iranian activity and designated 168 Iran-related persons.*

*We are also working to disrupt and expose Iran’s abuse of the international financial system. In May, for example, we sanctioned the then-Governor of the Central Bank of Iran (CBI) and the assistant director of the CBI’s International Department for conspiring with the IRGC-QF to conceal the movement of millions of dollars to enrich and support Hizballah. Likewise, we targeted a currency exchange network that Iran was using in Iran and the UAE to procure and transfer millions of U.S. dollars to the IRGC-QF, again facilitated by the CBI.*

*We have also delivered direct messages to the private sector detailing how Iran is involved in extensive illicit business activities, including using front and shell companies, counterfeiting currency, and cyberattacks to fund its support for terrorism. We continue to urge companies around the globe to toughen their financial networks and conduct extra due diligence to prevent them from being caught in Iran’s deceitful web. Our engagements have highlighted the very real risks of*

*conducting business with companies and people in Iran, as those engaging in prohibited business with Iran will be held to account.*

*We also work through the Financial Action Task Force (FATF) to pressure Iran to clean up its anti-money laundering/combatting the financing of terrorism (AML/CFT) regime. For over a decade, the FATF has highlighted the terrorist financing risk emanating from Iran and the threat it poses to the international financial system. Yet Iran has failed to fulfill its international obligations to clean up its financial system, crack down on illicit activity, and cease all financing of terrorism. We will continue to call for the FATF to re-impose countermeasures on Iran, including at the next meeting in February.*

*Another major focus of our efforts is Mahan Air, an airline that provides material support to the IRGC-QF, covertly moving weapons, explosives, terrorists and other fighters, and cash in support of regional malign activities. On May 24, 2018, Treasury designated nine individuals and entities and identified 31 aircraft associated with Mahan Air and other designated Iranian airlines. Treasury took action in July and September against general sales agents operating in Malaysia and Thailand for acting on behalf of Mahan Air. Treasury will continue using its broad range of tools and authorities at its disposal to counter the Iranian regime.*

Hezbollah controls a global terrorist and criminal activities network complete with a sophisticated and substantial weapons arsenal and is responsible for attacks on both Americans and our close ally Israel. A worldwide flow of illicit funds supports its activities, and Iran plays a major role in financially supporting it. What actions is Treasury currently taking to combat this financial lifeline for the terrorist group, including the flow of financial resources from Iran? What further actions need to be taken?

*Answer: Treasury has been very active in using its authorities to target Hezbollah-related individuals and entities worldwide and engage partners to identify and disrupt Hezbollah's exploitation of the international financial system. Through the first part of 2018 alone, OFAC has designated more than 25 Hezbollah-related persons, the most in any year since the issuance of Executive Order 13224 — OFAC's primary counterterrorism authority — in 2001. These designations included two crucial Hezbollah conduits for disbursing millions of dollars on behalf of the IRGC-QF: Mohammad Qasir and the Iraq-based Al-Bilad Islamic Bank. OFAC also designated a top Hezbollah financier, Mohammad Bazzi, and Hezbollah's representative to Iran, Abdallah Safi-Al-Din, who provided Iranian officials access to former Lebanese Canadian Bank. OFAC also designated a financial support network for Adham Tabaja, a Hezbollah member who has maintained direct ties to senior Hezbollah officials and Hezbollah's operational component, the Islamic Jihad. Treasury continues to engage law enforcement and regulatory authorities around the world to build AML/CFT capacity and expose them to Hezbollah's financial modus operandi. Treasury continues to identify and investigate targets worldwide, coordinate joint measures, and plan additional actions against the group.*

**Hearing date:** July 12, 2018, 10:00am

**Request of:** Congressman Scott R. Tipton, 3<sup>rd</sup> District of Colorado

**Request for:** The Honorable Steven T. Mnuchin, Secretary, U.S. Department of the Treasury

A U.S. Clearinghouse (CCP) doing business in Europe (EU) needs to obtain formal recognition pursuant to the European Market Infrastructure Regulation (EMIR) to be able to competitively provide clearing services to EU clearing members and customers. However, a CCP can only be recognized if the EU has found its regulatory regime to be "equivalent" to EMIR. In 2016, EU authorities found the CFTC regime to be "equivalent." However, the SEC and the regulatory framework for clearing cash-securities, including U.S.

Treasuries, has not yet been found to be “equivalent” and progress on this front has been met with frequent delays. Further complicating an SEC “equivalency” determination are draft revisions to EMIR that would bring U.S. and other third-country CCPs under the direct regulation and supervision of the EU for the first time. The stated purpose for making these changes is to address the potential risks that third-country CCPs could pose to the Europe’s financial system. The approach, however, could reopen the 2016 equivalence agreement for derivatives clearinghouse supervision between the CFTC and the EU authorities, which could further delay an SEC “equivalency” determination.

Would you please describe the Treasury department’s efforts to facilitate an “equivalency” determination for the SEC and the regulatory framework for cash markets from the EU?

**Answer:** *The Administration is supportive of finding a constructive solution on the issue of cross-border CCP supervision broadly, including CCPs subject to Securities and Exchange Commission (SEC) and Commodity Futures Trading Commission (CFTC) oversight. Treasury, along with the SEC and other U.S. regulators, discussed these issues with the European Commission at the U.S.-EU Joint Regulatory Forum in June, and also earlier in the year. Treasury officials and staff have coordinated with the CFTC and SEC to engage with European Commission (EC) counterparts on an ongoing basis. We also discussed CCP supervision and equivalence with the United Kingdom at the first meeting of the U.S.-UK Financial Regulatory Working Group this fall.*

*Bilaterally, I have continued to engage with my counterparts in the European Union about the need to take a more pragmatic, outcomes-based approach to equivalency. There is often more than one way to achieve a prudential objective. U.S. and EU CCP rules, for example, did not need to be identical for the CFTC and the EC to reach a mutually beneficial equivalency agreement regarding such institutions in 2016. I do, however, have concerns about some of the EC’s recent CCP supervision proposals including the location requirements and limitations on access to international markets and financial products. To address those concerns, staff and Treasury officials have raised them multiple times in meetings with European Commission staff. Additionally, the U.S. Government has discussed these concerns with members of the European Parliament and other stakeholders. Treasury is actively engaged to facilitate and assist with equivalency determinations by the EC, and not limited to the cash markets.*

**Ranking Member Maxine Waters**

**Questions for the Record**

**Full Committee hearing entitled “The Annual Testimony of the Secretary of the Treasury on the State of the International Financial System”**

**July 12, 2018**

***IMF’s 15<sup>th</sup> General Review of Quotas***

On the question of the IMF’s upcoming 15th review of the adequacy of IMF financial resources and the distribution of voting power in the Fund, your written testimony states that, “At this time, the United States finds that the IMF’s overall resources are adequate following the 2016 implementation of the 2010 Quota and Governance Reforms.”

Of course, the more critical question is not whether the Administration believes IMF financial resources are adequate today, but are IMF financial resources likely to be adequate for the period starting in 2020 and for the next decade? In fact, the question is even more complicated than that, and it’s not clear to me that the Administration’s current position fully understands the issues confronting IMF members in the 15th review.

IMF’s financial resources – from member quotas, multilateral borrowing arrangements, and bilateral borrowing – today total about \$1.4 trillion. The bilateral loan arrangements, however, expire in 2020, and

the GAB expires later this year. In addition, if the U.S. allows its contribution to the NAB to sunset in 2022, other NAB countries might also decline to renew their NAB commitments as well. Are you aware that current IMF financial resources, if we do nothing, are scheduled to be cut by at least a third, and potentially almost in half, by the early part of the next decade, and the only way that the United States can ensure that the IMF's financial resources remain at the current level, and at the same time maintain the US veto, is by supporting a substantial increase in IMF quotas and, preferably, a commensurate increase in the US quota?

**Answer:** *IMF resources are currently at an all-time high, more than a decade after the Global Financial Crisis. At the same time, there are increasing levels of alternate resources available to countries in crisis, such as regional financial arrangements. Nevertheless, we are taking a very close look at the size and nature of IMF resources, specifically the possible phase out of bilateral loan arrangements and the potential sunset of the New Arrangements to Borrow (NAB).*

How would such a reduction in the IMF's financial capacity undermine its ability to deal with inevitable future crises?

**Answer:** *The IMF's ability to deal with future crises depends on many factors, including the nature of the crisis, the extent of spillovers, and the alternate resources available to these countries. Therefore, we are focused not only on the level of IMF resources, but also on the strength of IMF surveillance, program design and governance in order to help bolster the IMF's effectiveness in the years to come.*

*In the event of a significant global crisis that could lead to higher demands on the IMF's financing, the IMF membership has demonstrated its ability to act quickly to generate more resources. For example, during the Global Financial Crisis, IMF members moved quickly to approve new resources to help the IMF support countries in distress.*

If the general membership of the IMF favors an increase in IMF quotas – at least enough to replace the roughly \$441 billion in ad hoc bilateral borrowing arrangements that expire in 2020, which would leave the Fund's current lending capacity essentially unchanged for the next decade – and if the United States were to use its veto to block such an agreement, what effect do you think this would have on U.S. leadership in the IMF and continued cooperation with other like-minded countries on international economic, financial, and monetary issues that are crucial to the future stability of the U.S. and global financial systems and economies?

**Answer:** *As the largest shareholder in the IMF, the United States has a responsibility to ensure that the IMF is a strong, sustainable, and effective institution that can help address future crises in the long term. We will work with the IMF membership to ensure that we pursue these goals together.*

**Potential risks associated with overuse of Iran-related secondary sanctions**

Is the Treasury Department assessing whether the reimposition of Iran-related sanctions on third countries could have unintended negative effects on international financial transactions, such as shifts away from dollar-denominated payment settlement or the use of special-purpose vehicles to insulate countries from sanctions. If this is not being examined, would you institute such an inquiry?

**Answer:** The Treasury Department conducts a range of assessments on the impact our sanctions have, not only on the targets of our sanctions – whose behavior we are trying to change, using sanctions as an inducement – but also on third parties. We hoped the JCPOA would lead to improvement in Iran's behavior in other areas, but we see the opposite is true as Iran's support for terrorist groups and its destabilizing activities across the Middle East have continued unabated. We

have been clear with governments around the world that the purpose of our sanctions is to bring economic pressure to bear in support of the President's decision to seek a new agreement to address the totality of the Iranian threat. Ultimately, we share a common interest with governments around the world in preventing Iran from engaging in its malign regional activities and from acquiring nuclear weapons. This is why we are working together with our allies to achieve an agreement that permanently denies Iran all paths to a nuclear weapon and addresses the totality of Iran's malign activities.