Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2019

Pursuant to applicable rules and laws, the Committee on Financial Services transmits to the Committee on the Budget the following views and estimates on matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2019 (FY19).

THE DODD-FRANK ACT

Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203), signed into law on July 21, 2010, was the most sweeping overhaul of the regulatory structure of our financial system in more than a generation. The Dodd-Frank Act made significant changes to the federal regulatory regime covering banking, securities, insurance, mortgages, systemic risk, and consumer protection, and mandated upwards of 400 separate rulemakings.

Funding Level: N.A.

Committee's View: The Committee remains gravely concerned that the Dodd-Frank Act has failed to achieve its proponents' stated goals of promoting the financial stability of the United States, ending "too big to fail" and taxpayer bailouts, and protecting consumers. Instead, the Committee believes that the Dodd-Frank Act has endangered taxpayers and our economy by enshrining "too big to fail" in statute, creating endless new regulatory mandates from Washington that have resulted in fewer and more expensive financial products and services, increased moral hazard in markets by failing to address the true causes of the financial crisis, and hampered economic growth. The Committee has advanced numerous legislative proposals throughout the 115th Congress, including a comprehensive regulatory reform initiative, H.R. 10, the Financial CHOICE Act, to replace the failed aspects of the Dodd-Frank Act with free-market alternatives that end bailouts once-and-for-all, restore market discipline, ensure that the financial system is more resilient, pare back unnecessary and burdensome regulations, encourage capital formation and economic growth, and protect consumers by preserving financial independence and consumer choice. The Financial CHOICE Act also subjects the Federal Reserve's prudential regulatory activities – along with those of the other federal financial regulators – to the congressional appropriations process, handing the people's elected representatives an important tool with which to hold these bureaucracies accountable and achieve greater transparency in government operations. In that regard, the Committee has favorably reported to the House numerous bipartisan legislative measures to amend the Dodd-Frank

Act or provide regulatory relief. For example, the Committee favorably reported to the House H.R. 1116, the TAILOR Act, by a vote of 39-21, which would require federal financial regulatory agencies to: (1) tailor any regulatory actions so as to limit burdens on the institutions involved, with consideration of the risk profiles and business models of those institutions; and (2) report to Congress on specific actions taken to do so. Another example is , H.R. 2121, the Pension, Endowment, and Mutual Fund Access to Banking Act, which the Committee favorably reported to the House by a vote of 60-0, which would direct the federal banking regulators to exclude, for purposes of calculating a custodial bank's supplementary leverage ratio, funds of a custodial bank that are deposited with a central bank. A third example is H.R. 4061, the Financial Stability Oversight Council Improvement Act of 2017, which the Committee favorably reported to the House by a vote of 45-10 and would require the Financial Stability Oversight Council, to consider the appropriateness of imposing heightened prudential standards on non-banks as opposed to other forms of regulation to mitigate identified risks to U.S. financial stability. The Committee disagrees with the Congressional Budget Office (CBO) scores received for each of these measures and requests that the FY19 Budget Resolution provide the necessary funding to resolve the costs associated with these bills.

Orderly Liquidation Authority

The Orderly Liquidation Authority, established under Title II of the Dodd-Frank Act, gives the Federal Deposit Insurance Corporation (FDIC) the authority to resolve financial institutions whose failure government officials believe might pose a threat to the financial stability of the United States.

Funding Level: N.A.

Committee's View: The Committee continues to have strong objections to the Dodd-Frank Act's Orderly Liquidation Authority and the proposed manner in which such authority would be implemented. Specifically, the Committee rejects the notion that taxpayers are protected from future bailouts by the Orderly Liquidation Authority, under which the FDIC may borrow from the Treasury to capitalize an "Orderly Liquidation Fund" to be used to pay off the creditors of a failed firm. The Committee believes the Orderly Liquidation Authority thus perpetuates the government guarantee enjoyed by creditors during the recent financial crisis, which entrenched the "too big to fail" problem and placed taxpayers on the hook for multi-billion dollar bailouts of large financial institutions. Accordingly, the Committee supports replacing the Orderly Liquidation Authority with established bankruptcy procedures, wherein shareholder and creditor claims are resolved pursuant to the rule of law rather than the arbitrary discretion of regulators. Although proponents of the Orderly Liquidation Authority point to provisions in Title II which authorize the FDIC to recoup costs from large financial institutions through *post hoc* assessments, the CBO has estimated that repealing Title II—as was included in the Committee reported, and House-passed Financial CHOICE Act – would achieve savings of $14.5 billion between fiscal years 2018 and 2028.

<u>Office of Financial Research</u>

Title I of the Dodd-Frank Act established the Office of Financial Research (OFR), within the Treasury Department, to support the Financial Stability Oversight Council (FSOC) in fulfilling its duties to identify and respond to risks and emerging threats to the financial stability of the United States. Thus, the OFR collects information and standardizes data for the FSOC and other financial regulatory agencies, performs applied and long-term research, and develops tools for risk measurement and monitoring.

<u>Funding Level:</u> The OFR receives its funding from outside of the congressional appropriations process through assessments levied on large financial companies. The Treasury Secretary's "FY 2018 Congressional Justification for Appropriations and Annual Performance Report and Plan," indicates that the OFR's funding level will drop by 25 percent, from an estimated $101 million in 2017 to $76 million in 2018.[1]

<u>Committee's View:</u> The Committee remains concerned about the scope, redundancy, and potential for misuse of the OFR's powers as well as Congress's limited oversight of the OFR and its funding. There are also concerns related the OFR's workplace culture, and allegations of mismanagement with respect to the direction and leadership of the agency that have resulted in low employee morale. Furthermore, there are as many as 20 other federal divisions, sections, departments, centers, committees, offices, and bureaus that are capable of collecting or analyzing data that can be used by policymakers to assess risks to the financial system or the broader economy. Several of these entities have missions and capabilities that are virtually indistinguishable from OFR's. The previously mentioned, H.R. 10, the Financial CHOICE Act, eliminates the OFR and the Committee intends to advance similar legislation in this Congress.

CONSUMER FINANCIAL PROTECTION BUREAU

The Consumer Financial Protection Bureau (CFPB) is a federal agency created by the Dodd-Frank Act to regulate providers of credit and other consumer financial products and services. The Dodd-Frank Act confers upon the CFPB Director a broad mandate that includes consumer protection functions transferred from seven different federal agencies, and the authority to write rules, supervise compliance, enforce all consumer protection laws and regulations other than those governing investment products regulated by the Securities and Exchange Commission (SEC) or the Commodity Futures Trading Commission (CFTC.)

[1] Data source: "Resource Data Table," p. 271, https://www.treasury.gov/about/budget-performance/CJ18/FY%202018%20Treasury%20CJ%20FINAL.PDF

Funding Level: The CFPB does not receive appropriations; instead, it draws its funding from a defined portion of the combined earnings of the Federal Reserve System, adjusted annually for inflation. For FY19, by statute the CFPB may receive up to $663 million. The CFPB's budget authority is further enhanced by unobligated balances brought forward from prior fiscal years.

Committee's View: Although established within the Federal Reserve System, the Dodd-Frank Act makes clear that the CFPB is an "independent bureau" and assigns no role to Congress or the Federal Reserve System to oversee either its budget or use of funds. The effect of the CFPB's unorthodox budgetary treatment is that every dollar it draws directly reduces the Federal Reserve System's annual remittances to the Treasury, thus lowering the amount by which such remittances may be used to decrease the federal deficit.

The Committee continues to believe that the CFPB's structure and funding make it uniquely unaccountable to the President, the Congress, and the American people. History shows that agencies shielded from accountability are prone to abuse their authority, and the CFPB is no exception. While the CFPB, under Acting Director Mulvaney, has imposed a temporary regulation and hiring freeze, and ordered a review of active investigations and lawsuits, the Committee will continue to advance legislative proposals, such as H.R. 10, the Financial CHOICE Act, to enhance accountability and greater transparency at the CFPB. As part of these efforts, the Committee continues to seek reforms to the CFPB's operations and structure, including subjecting the CFPB to congressional appropriations process, and reforming the CFPB's statutory mandate to ensure that it takes into account, and seeks to promote, robust market competition. These efforts parallel the CFPB's FY2018-FY2022 Strategic Plan, which establishes the CFPB's mission, strategic goals, and strategic objectives. The Strategic plan refocuses the CFPB's mission on regulating consumer financial products or services under existing federal consumer financial laws, enforcing those laws judiciously, and educating and empowering consumers to make better informed financial decisions.

SECURITIES AND EXCHANGE COMMISSION

The SEC's three-part mission is to (i) protect investors; (ii) maintain fair, orderly, and efficient markets; and (iii) facilitate capital formation. The Chairman of the SEC sets the agenda for the agency. The five SEC commissioners, with the support of the SEC staff, set SEC policy by interpreting the Federal securities laws, proposing new rules as warranted by market developments or Congressional mandates, amending existing rules, and overseeing SEC enforcement actions.

Funding Level: Pursuant to the FY18 Annualized Continuing Resolution, the SEC's current budget authority for is $1.631 billion. When the SEC accounts for its Reserve

Fund, created under Section 991 of the Dodd-Frank Act, the SEC's FY18 spending authority is $1.681 billion. By law, the SEC has the authority to carry over unspent funds from the previous fiscal year, and pursuant to this authority, the SEC carried over $25 million of its $1.631 billion budget authority from FY17. The SEC also can deposit up to $50 million in FY18 to its Reserve Fund and may obligate this full amount in the same fiscal year. Thus, combined, the SEC's total spending authority for FY18 is $1.681 billion.

<u>Committee's View:</u> The SEC's current spending authority of $1.681 billion represents an amount 57 percent greater than what Congress obligated to the SEC for FY10— the year of the Dodd-Frank Act's enactment. It also constitutes an amount that is 86 percent—or $776 million— higher than what Congress obligated to the SEC a decade ago for FY08.

Under the previous Administration, the SEC expended thousands of man-hours and tens of millions of dollars in pursuit of Dodd-Frank Act mandates that had little to do with actual investor protections, promulgate rules on political and social issues unrelated to the causes of the financial crisis that only will serve to distract investors from the disclosure of truly material information. The Committee was encouraged that the SEC's FY18 budget request did not seek an increase over its FY17 funding. Further, the SEC, under the current Administration, has broadened the focus of its resources to better fulfill its three-part mission, particularly with respect to capital formation. The current Administration also inherited an information technology (IT) system at the SEC that is replete with cybersecurity risks.

For FY19, the SEC has requested $1.658 billion of budget authority for operations—an increase of 3.5 percent as compared to its FY18 request, with the increase in expenses offset by matching collections of fees on securities transactions. This does not include the anticipated carryover of $25 million from FY18, which would increase the proposed FY19 obligations for SEC operations to $1.683 billion. It also does not include the potential obligation of up to $50 million from the Reserve Fund. Finally, it excludes an estimate of $37.2 million for costs associated with relocating the New York regional office.

While the Committee is cautious of further budget increases in light of the degree to which the SEC's budget authority has increased over just the most recent decade, a substantial portion of the requested increase for FY19 can be attributed to IT and Cybersecurity. The SEC must address the protection of the sensitive data that the SEC maintains in its systems, as made clear by the disclosure last year that hackers breached the SEC's EDGAR database and the two GAO reports that indicated cybersecurity concerns were not adequately addressed during the prior Administration. The budget request also accounts for a removal of the current hiring freeze for the purpose of adding certain full-time positions, including a Chief Risk Officer, new personnel to focus on capital formation objectives, and others that will support two new enforcement priorities—the Retail Strategy Task Force and the Cyber Unit. Nonetheless, as in past years and considering that the SEC anticipates as part of its FY19 budget authority a recovery of $25 million of prior fiscal year obligations (and anticipated the same for FY18), the Committee rejects the idea that the only way to achieve these improvements and modernizations within the SEC is to spend a substantial amount of additional money. Further, the Committee continues to be concerned about both the SEC's ability to carry-over unspent funds and the SEC's Reserve Fund. The Reserve Fund, which is authorized to carry a balance of up to $100 million, is supplemental funding that the SEC can access without congressional approval; eliminating it would generate significant budget savings for taxpayers and restore appropriate oversight.

Throughout the 115th Congress, the Committee has advanced and will continue to advance legislation to reform the SEC's operations and structure. For example, the Financial CHOICE Act would modernize the SEC's operations and structure to eliminate inefficiencies and eliminate the SEC's Reserve Fund. The Committee will also continue to advance legislation to facilitate capital formation. For example, in 2017, the Committee favorably reported to the House H.R. 4267, the Small Business Credit Availability Act, by a vote of 58-2. This legislation would modernize the regulatory regime for business development companies (BDCs), fill a lending vacuum and provide much-needed credit to small and middle market companies, thereby generating economic growth. The Committee disagrees with the CBO's prior estimates on similar BDC modernization legislation and requests that the FY 19 Budget Resolution provide the necessary funding to resolve the costs associated with this legislation, if any, once CBO provides its estimate for H.R. 4267.

GOVERNMENT SPONSORED ENTERPRISES

The Government Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac, are government-chartered public companies that purchase mortgages from lenders and package them into mortgage-backed securities, which they guarantee and sell off to investors. The GSEs have been in conservatorship under the auspices of their regulator, the Federal Housing Finance Agency, since their financial collapse in September 2008.

<u>Committee's View</u>: More than nine years have passed since the bursting of the housing bubble and the GSEs' financial implosion, and the Committee remains extremely concerned about the continued risk that the GSEs pose to taxpayers, especially through their expanded activities and the further consolidation of their dominant market share. Despite recent improvements to their corporate balance sheets, the GSEs' model is inherently flawed and unsustainable without taxpayer support. Accordingly, the Committee continues to support legislative initiatives to wind down the GSEs' operations, repeal their charters, and replace their failed business model with a sustainable, private housing finance system that protects taxpayers, enhances consumer choice in mortgage financing, encourages private sector investment and innovation, and eliminates moral hazard. CBO has previously estimated that gradually winding down the GSEs would produce significant

taxpayer savings and decrease direct spending by almost $6.7 billion over the next ten years.

In the interim, the Committee urges Congress to adopt a realistic budget treatment of the assets and liabilities of the GSEs. Doing so includes preventing the misuse of the proceeds of the guarantee fees charged by the GSEs to investors; such funds are an important risk mitigation tool to better protect the GSEs and taxpayers from future losses and should not be diverted to finance unrelated government programs or initiatives. Additionally, the Committee strongly recommends that the Office of Management and Budget (OMB) move the GSEs to an "on budget" accounting standard, as CBO has already done, to provide a more transparent accounting of their true impact on the federal budget. The Committee intends to advance legislation to reform the nation's housing finance system in the 115th Congress.

Risk Transfers

It is the Committee's view that Federal agencies and departments that hold credit, guarantee, or insurance risk that exposes the taxpayer to potential losses should explore and, to the extent practical, employ risk transfers to the capital and reinsurance markets. De-risking federal programs by transferring risk can help mitigate the real world impact of potential losses from both significant events during ordinary economic conditions (e.g., a wave of housing foreclosures) and unanticipated or extraordinary events (e.g., damage from hurricanes or flooding). Risk transfers have successfully been demonstrated to minimize taxpayer exposure, promote price transparency and enhance market liquidity. Both the Federal Housing Finance Agency and the National Flood Insurance Program currently employ and have benefitted from the use of risk transfers, which shows the ability of different federal agencies to work with the private sector to manage their risks and mitigate potential losses embedded in their portfolios.

FEDERAL RESERVE SYSTEM

In 1913, Congress created the Federal Reserve System to serve as the nation's central bank. It performs several functions in our economy, and its Board of Governors is responsible for supervising and regulating a variety of financial institutions and activities, as well as conducting monetary policy pursuant to a statutory mandate to "maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates."

Funding Level: N.A.

Committee's View:

The Committee remains concerned about the expanded regulatory mission of the Federal Reserve and the inability of the Board of Governors to articulate clear guidance for how it plans to conduct monetary policy. Over-reliance on the Federal Reserve to manage virtually every aspect of the U.S. economy runs the risk of compromising the Federal Reserve's independence and placing taxpayers at greater risk in the event that regulatory failure by the Federal Reserve contributes to another significant or prolonged economic downturn. Accordingly, the Financial CHOICE Act strengthens the Federal Reserve's ability to achieve monetary policy outcomes consistent with its statutory mandates, bring more transparency to the Federal Reserve's efforts to achieve those mandates, and protect the Federal Reserve from undue influence by the Executive Branch in setting monetary policy. The Committee believes that achieving a more stable and rules-based monetary policy would yield much larger benefits for taxpayers and our entire economy. In addition, the Financial CHOICE Act promotes greater accountability at the Federal Reserve as it would fund the non-monetary activities of the Federal Reserve's Board of Governors and the 12 regional banks through the congressional appropriations process.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Established in 1965, the Department of Housing and Urban Development (HUD) is a cabinet-level agency that has principal responsibility for implementing and overseeing federal housing assistance programs. HUD administers a wide variety of programs, such as rental assistance programs for lower-income families, homeless assistance programs, community development programs, the Federal Housing Administration's (FHA) mortgage insurance programs, the Government National Mortgage Association's (Ginnie Mae) mortgage-backed securities program, fair housing programs, and programs that aid community and neighborhood development and preservation.

Committee's View: The Committee intends to explore innovative proposals and ideas that seek a better way to meet HUD's mission "to create strong, sustainable, inclusive communities and quality affordable homes for all." In the past, that mission was measured by how many programs were created and how many taxpayer dollars were appropriated. Yet, 52 years later and more than $1.655 trillion in total lifetime appropriations, it is an open question whether HUD has truly met that mission. HUD remains overly bureaucratic and fails to set priorities that define its mission. The Committee believes that HUD needs an organizational overhaul and a modernized mission to fight the root causes of poverty. HUD should be restructured to optimize the alignment of its various divisions and consolidate overlapping and duplicative programs, as well as to ensure the efficient utilization of its human capital. Such reforms would both result in greater budget savings for taxpayers and allow for assistance to be targeted to individuals with the most acute need. The Committee intends to review two ideas that could significantly improve how HUD meets its mission to improve lives and communities in a cost-effective way.

Enhancing Housing Choice Portability

The Committee intends to explore new policies that would enhance the housing choice voucher program. Currently, the Section 8 program provides housing assistance to over three million low-income families and individuals each year through two elements: tenant-based rental assistance and project-based rental assistance. Tenant-based rental assistance vouchers are portable subsidies that low-income individuals can use to offset part of their rent in the private market with any participating housing provider. By contrast, project-based rental assistance is a subsidy attached to a unit of privately-owned housing that houses low-income tenants; if the family moves, the subsidy remains with the unit of housing.

The Committee questions whether the current voucher program is effective in facilitating access for low income families to affordable housing, employment or education opportunities. The tenant-based rental assistance voucher program should be enhanced to encourage recipients of housing assistance to move to areas with greater opportunities. Testimony before this Committee highlighted previous proposals to develop a Housing Choice Voucher Mobility initiative with the goal of facilitating collaboration, encouraging Housing Choice Voucher program participants to move to lower-poverty areas, and expanding families' access to areas of economic opportunity. The Committee believes that changes in the Housing Choice Voucher Program would result in measurable metrics where the children of families using this enhanced mobility would have greater long-term economic and educational achievements, and thereby break the intergenerational dependence on government assistance.

Public Housing Modernization

The Committee intends to explore new policies that modernize how public housing is managed and uses federal funds. Currently, there are approximately 3,800 public housing authorities that administer and maintain section 8 and public housing stock. This fragmented national system of state-chartered entities contributes to the lack of voucher portability and may further constrain individual choice and economic mobility. Moreover, the system, which was federally created in 1937 and last overhauled in 1998, has experienced significant regulatory burdens and a lack of innovation to match contemporary issues. Two programs—Moving To Work (MTW) and Rental Assistance Demonstration (RAD)—have sought to combine innovation and flexibility. However, these programs are not a panacea for overhauling a federally funded housing system that appears outdated.

Over the past two decades, despite the investment of tens of billions of dollars in the development and maintenance of public housing units, the quality of such units continues to deteriorate. The Committee recognizes that this trend is not sustainable and that new approaches to public housing are necessary, including the implementation of alternative means to finance affordable housing development. To make more capital available to maintain and rehabilitate public housing, the Committee continues to support RAD. RAD permits public housing authorities to partner with local developers, property owners, and nonprofit organizations to preserve affordable housing units that would otherwise fall into disrepair, become uninhabitable, and eventually leave the affordable housing stock. When implemented properly, RAD could streamline HUD's rental assistance programs, increase resident choice, and improve resident mobility. Future enhancements of existing programs will also mean innovating beyond the government owned-and-operated public housing model towards new housing delivery models that harness the abilities of non-profits and other cost-effective service providers.

A significant component of the public housing delivery system involves small and rural communities. Of the approximately 3,883 public housing authorities that administer and maintain Section 8 and public housing stock, 1,486 agencies administer between 50-249 units or vouchers and are designated small agencies; 701 agencies administer between 1-50 units or vouchers and are considered very small. Combined, small and very-small public housing authorities, as defined by HUD, comprise 56 percent of the 3,883 public housing agencies, administrating six percent of the total number of units and vouchers funded by HUD. The Committee will review the impact of regulation on small and very-small public housing authorities and explore whether to provide regulatory relief in a way that eases compliance costs while ensuring that small and very-small agencies serve residents in an equitable and fair manner.

EXPORT-IMPORT BANK

The Export-Import Bank is an independent agency that provides taxpayer-backed export financing through various loan, guarantee, and insurance programs.

Funding Level: The Export-Import Bank receives $95.5 million in FY18 appropriations for administrative expenses and $5.7 million in FY18 appropriations for the Office of Inspector General

Committee's View: Given the Export-Import Bank's authorization through September 30, 2019, the Committee will continue to conduct rigorous oversight of its operations and governance to protect taxpayers from risk associated with the those operations, ensure it complements rather than supplants the private market, and eliminate waste, fraud, and abuse within or affecting the Export-Import Bank. Additionally, the Committee remains concerned that the application of government accounting standards under the Federal Credit Reform Act fails to fully account for the risks borne by the Export-Import Bank and supports the use of a more comprehensive accounting regime to determine the Export-Import Bank's cost to taxpayers.

MULTILATERAL DEVELOPMENT BANKS

The multilateral development banks (MDBs) provide concessional lending and grants to the world's poorest countries and engage in non-concessional lending to low and middle-income creditworthy countries.

Funding Level: As passed by the House (H.R. 3354, 115th Congress)

- International Development Association: $658.66 million in FY18 appropriations
- Asian Development Fund: $47.39 million in FY18 appropriations
- African Development Bank (includes African Development Fund): $141.8 million in FY18 appropriations
- International Fund for Agricultural Development: $30 million in FY18 appropriations

Committee's View: In the past, the U.S. has determined the level of its support to MDBs through pledges made by the Treasury Department on behalf of the U.S. to international organizations, which are subsequently considered and funded by Congress through the appropriations process. The Committee notes that, relative to Congress's willingness to appropriate funds in support of the MDBs, the Administration has previously over-committed the United States in pledges to such entities. Therefore, the Committee recommends that the Administration refrain from making commitments that the U.S. is not prepared to fully fund.

In December 2016, the Obama Administration pledged $3.871 billion for the eighteenth replenishment of the World Bank's International Development Association (IDA-18), subject to approval by the following administration and the availability of appropriations. This level was subsequently lowered to $3.291 billion, representing a 15 percent reduction, in the Trump Administration's FY18 and FY19 budget. The Committee has been concerned by management deficiencies at the World Bank, including weak project implementation and insufficient prioritization of development results. As a result, the Committee favorably reported H.R. 3326, the World Bank Accountability Act of 2017, by a unanimous vote of 60 to 0, which codified the Trump Administration's reduced request and made a share of future IDA appropriations contingent on reforms. The House passed this legislation on January 17, 2018. The Committee urges Treasury to strongly advocate that governments receiving assistance from the MDBs refrain from human rights abuses and corrupt activities as a condition of continued funding. The Committee also believes that the MDBs should undertake rigorous program evaluations and forensic audits to ensure that U.S. taxpayer contributions are not squandered on ineffective initiatives.

INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) seeks to ensure the stability of the international monetary system and provides loans to countries that are experiencing actual or potential balance of payment problems. The IMF also provides technical assistance to low- and middle-income countries intended to help such countries effectively manage their financial affairs.

Funding Level: In FY16, an increase of U.S. quota in an amount equal to 40,871,800,000 Special Drawing Rights. (Congress also rescinded an equivalent amount from the IMF's "New Arrangements to Borrow" program, which is a set of credit arrangements between the IMF and certain member countries used to supplement IMF quota resources for lending purposes.)

Committee's View: The Committee will monitor the operations of the IMF's lending programs to ensure that Treasury is managing risk effectively and securing the timely repayment of taxpayer funds. The Committee urges the Administration to advocate for greater fiscal discipline and budget transparency in countries borrowing from the IMF.

COMMITTEE ON FOREIGN INVESTMENT IN THE UNITED STATES

The Committee on Foreign Investment in the United States (CFIUS) is a multi-agency panel chaired by the Secretary of the Treasury and charged with analyzing proposed foreign direct investment (FDI) to identify and, if possible, mitigate any threat to national security a proposed transaction might present. Exercising the authorized by the International Emergency Economic Powers Act (IEEPA), the President may, if a threat is identified and is unable to be mitigated by some change in a transaction, prevent consummation of a transaction or unwind one that has taken place. Congress last updated the CFIUS authorizing statute in 2007. Because of changes in the international marketplace, technology and national security conditions, the Committee, which holds the primary CFIUS jurisdiction, is examining the statute with an eye towards modernization.

Committee's View: While each agency that is a formal part of the CFIUS process, and any other agency with expertise in a particular transaction, contributes its own staff to the CFIUS analysis of a transaction, the Treasury Department performs a "ministerial" role of arranging meetings of staff and scheduling transactions for consideration, and thus has a particular need for staff assigned to CFIUS. Because Treasury's CFIUS work is spread across several mission areas and owing to the peculiarities of appropriating for Treasury's non-tax work, there is no identifiable budget line for CFIUS. Regardless of the outcome of efforts to modernize CFIUS, the Committee believes that resources need to be reprogrammed from other, less-critical functions and instead devoted to the CFIUS process, both to ensure thorough scrutiny of any transaction and to ensure that analysis is completed in a timely fashion. While the FY19 budget proposal makes clear that the President and Treasury are committed to a well-functioning and effective CFIUS process, the Committee believes that the commitment should be more specific in terms of financial and human resources even if no statutory update occurs, and that any CFIUS modernization will require more resources to ensure the process functions properly.

FIGHTING THE FUNDING OF TERRORISM

The Office of Terrorism and Financial Intelligence (TFI) coordinates the Treasury Department's efforts to stop the financing of terrorism, money laundering, and similar forms of illicit finance, principally through its Office of Foreign Assets Control (OFAC) and the Financial Crimes Enforcement Network (FinCEN), but also through capacity-building efforts by the Office of Technical Assistance (OTA). As the major components within TFI, OFAC is responsible for administering U.S. sanctions against drug traffickers, human rights abusers, and rogue nations, while FinCEN receives, analyzes, and makes available to law enforcement data reported by financial institutions on activities that potentially indicate violations of the law.

<u>Funding Level:</u> The President's Budget requests $159 million for TFI, a $36 million increase from the 2017 enacted level. The Budget requests $118 million for FinCEN, a $3 million increase from the 2017 enacted level. The Budget also requests $25 million to proactively and strategically protect Treasury Information Technology systems that carry out TFI responsibilities.

<u>Committee's View:</u> The Committee appreciates the importance of robust diligence to fight the funding of terrorism and other financial crimes in a global and increasingly digital financial system. For that reason, in the 115th Congress, the Committee established a new Subcommittee on Terrorism and Illicit Finance to review the tools and policies to stop and block the illegal flow of funds. Additional TFI funding will enhance national security and allow Treasury to continue to apply maximum economic pressure to isolate rogue nations, such as North Korea, and to strengthen multilateral cooperation in the Persian Gulf with the build out of the Terrorist Financing Targeting Center in Saudi Arabia. The Committee supports responsible efforts to enhance FinCEN's ability to meet the new challenges posed by the growth of threats from North Korea, terrorist organizations, and drug trafficking organizations that are fueling the opioid crisis.

The Committee will examine ways to improve the allocation of resources within, and improve the operations of, TFI, including the Office of Intelligence and Analysis (OIA). The Committee will work to enact a multi-year authorization for FinCEN and would seek to do the same for TFI and OFAC if there is agreement to separate those accounts from the main Treasury funding account.

The Committee also fully supports the critically important job the Treasury's OTA does to enhance the capacities of public finance ministries and central banks in developing and transitioning economies to strengthen their public finances and safeguard their financial sectors. These efforts by OTA help strengthen ministries of finance, create more equitable and effective tax policies, develop means of public finance and government debt management, and assist with the development of anti-money laundering and counter terrorist financing regimes around the world. A government that builds effective public financial institutions and maintains effective oversight of private institutions can become a valuable partner in the global effort to combat terrorist financing. The Committee fully supports the OTA's mission in helping developing and transitioning nations establish the building blocks of a modern market economy.

STRENGTHENING, SIMPLIFYING, AND UPDATING THE BANK SECRECY ACT

The current anti-money laundering (AML) / countering the finance of terrorism (CFT) legal regime has seen only iterative changes since its inception, and is in need of reform in order to prevent undue regulatory burdens on financial institutions, and simultaneously promoting national security interests and deterrence of criminal activity through the financial system.

Committee's View: The Committee is considering changes to the Bank Secrecy Act (BSA) to address gaps in the AML/CFT regime. FinCEN's adoption of its Customer Due Diligence rule in May 2016 is recognition of the need to modernize the BSA and the Financial Action Task Force (FATF) in its mutual evaluation of the U.S.'s AML/CFT regime in December 2016 also recognized that some gaps still exist in the AML framework. The intended outcome of the proposed legislation to update the BSA under consideration by the Committee will be to ensure that the vast resources that U.S. financial institutions put towards AML/CFT efforts are both efficient and effective, and simultaneously enhance national security and contribute to law enforcement efforts to combat financial crime. In doing so, the Committee will address the compliance burdens of financial institutions and provide law enforcement with a more complete and detailed picture of illicit financial activity.

OFFICE OF MINORITY AND WOMEN INCLUSION

Federal financial agencies have undertaken several initiatives to promote greater economic opportunity within the financial services industry, including, but not limited to, Section 342 of the Dodd-Frank Act, which established Offices of Minority and Women Inclusion (OMWI) within various federal financial regulatory agencies.

Funding Level: Varied

Committee's View: The Committee wants economic opportunities for all and increased participation for under-represented populations in all aspects of the financial services industry. The Committee supports appropriate levels of funding for the Offices of Minority and Women Inclusion and other oversight efforts to eliminate illegal discrimination, including the documentation of discrimination at federal financial regulatory bureaus and agencies.